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Deducting The Costs
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Your Key Employees

Training Tomorrow's Workers

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business, labor, and government
must work together to develop
a high-tech work force.*



MARCH 1993



03

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PHOTO: T. MICHAEL REED

Training to succeed in an increasingly competitive global marketplace must be a lifelong task for America's workers. And business, labor, and government must join together in efforts designed to plug the skills gap. *Cover Story, Page 22.*



PHOTO: DAVID FETTER

Country fervor is sweeping dance clubs—and a host of other businesses—nationwide. *Marketing, Page 33.*

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PHOTO: T. MICHAEL KEZA

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Three Stories, One Denominator

Three articles in this month's issue are on separate subjects but have a common denominator—strengthening the American enterprise system.

Our cover story deals with the need to keep the U.S. competitive by developing a work force adequate to the high-tech, global market.

We also report the 1993 state honorees in the Blue Chip Enterprise Initiative, which is designed to help small businesses weather difficulties. (The illustration depicts the trophies awarded to the national winners, who will be announced in next month's issue.)

And this issue also spotlights the newest edition of the National Business Agenda of public-policy initiatives vital to business.

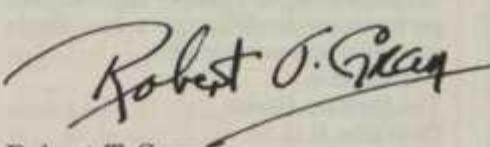
One major element of the cover story is the critical need to recognize how fast technology is overtaking the workplace and altering the type of skills that employees need. The other factor is the wide range of activity under way to meet those needs. This cover story, starting on Page 22, will give you a broad perspective on this issue and probably spark some ideas for your company.

The Blue Chip Initiative, now in its third year, was launched not as a competition but as a means of letting the honored companies share their experiences in overcoming threats to survival. How the Blue Chip stories are told is described in the article beginning on Page 38.

And if your small firm has a story to tell about succeeding despite great odds, it's very likely a good candidate for the next Blue Chip Initiative. For information on participating, call 1-800-AWARD-93.

The National Business Agenda, which this year bears the title *Renewing American Enterprise*, is the result of a grass-roots membership effort by the U.S. Chamber of Commerce. It's a bold plan, but the steps it proposes are just what the country needs. Details start on Page 54, and an editorial appears on Page 87.




Robert T. Gray

Editor

Nation's Business

Letters

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TQM Just Takes A Little Training

"How To Get Your TQM Training On Track" [October] makes some good points, but I disagree with the following: (1) Massive cultural change is required, (2) large amounts of up-front training are necessary, and (3) results can take years.



PHOTO: CHARLES CUTTER—LIFE PHOTO

Just-in-time instruction in small doses can be an effective approach to TQM training.

In my experience, very few companies have employee-management relations that are so poor that any significant cultural intervention is needed before getting started on quality improvement. Top managers may need a little attitude adjustment, but if they will take some time to understand what TQM is and give it a chance, their support for TQM will increase as they see positive results.

Just-in-time training in small doses and learning by doing are the most effective approaches to training, and education (understanding) should precede training.

Quality improvement should never end, but it does not take years to see results. With a focused, frugal approach, measurable improvements should be seen in a few months. Although some upfront investment is required, most programs should be paying for themselves within six to 12 months.

Nothing will get naysayers on the TQM train like some tangible results. And most companies can significantly improve their performance by following a few simple principles and procedures.

Will Kaydos

*The Decision Group
Charlotte, N.C.*

Leasing May Be A Capital Idea

While I enjoyed "Creative Ways To Raise Capital" [January], I was disappointed

that the section on financing equipment did not address the widespread availability of equipment and vehicles through leasing.

Leasing is available for purchases of all sizes, for equipment and vehicles of all types, and for terms up to 72 months. Many leasing companies will arrange equipment or vehicle leases up to \$50,000 without disclosure of financial statements.

Many economists believe small businesses will lead us out of the economic downturn. The equipment- and vehicle-leasing industries stand ready to provide the capital for America's small businesses to acquire equipment and vehicles.

*Peter A. Ferrara, Sr.
President/CEO
Network Companies
Commack, N.Y.*

[Editor's Note: We have written frequently on the benefits of leasing as an effective means of acquiring equipment. An article on leasing motor vehicles appears annually in our May issue.]

Welfare Reform Could Help Children—And Mothers

In your November article "Readers' Views On Welfare Reform," you report that 81 percent of the respondents to your survey blame irresponsible conduct as the major cause of welfare dependency. Seventy percent of the recipients of the major welfare program, Aid to Families with Dependent Children, are children. How can we expect children to be economically responsible when they are too young to be gainfully employed?

In half the states, the combined benefits of AFDC and food stamps do not equal three-fourths of the poverty level. AFDC is not designed to subsidize able-bodied women. It exists because the people of this nation have believed that we have an obligation to take care of children in need. Children must have caretakers, and the most logical individual for that task is a parent.

To be a mother of small children deserves respect. To be a mother of small children while trying to eke out a living on a below-poverty income is difficult in itself without having to be subjected to the humiliation and denigration that is her daily lot.

We would propose a substitute to your

last question, "Should federal requirements for welfare be tightened?" Our question would be, "Should AFDC recipients be allowed to make money up to the poverty line without having it affect their grants?"

And our answer would be yes. This would be the beginning of true welfare reform.

*Polly Mann
Women's Political Alliance
St. Paul, Minn.*

Don't Fix Health Care By Hurting Workers

After all the campaign promises to solve the health-care problem, I understand that the Clinton administration is considering limiting the tax deduction businesses can take for employer-provided health insurance. This action would cause me to stop providing health insurance to my employees.

My company has been providing health insurance to our employees for 15 years at no cost to them. No one has forced us to do this—no local agency, no township agency, no county agency, no state agency, no federal agency.

This year the premiums that our company pays—and is allowed to deduct as a business expense—will total over \$35,000. And we have only 22 employees! How are we supposed to absorb this expense, which is substantial to us, and then be taxed on part or all of it? We might have to lay off some people.

Without the tax deduction, our company will have a disincentive to provide health care to our employees. Is that the result the Clinton administration is looking for? Do they want employers all over the country to reduce insurance? Are they searching for additional reasons to justify government-controlled health care?

Fix only the part that is broken.

*Christine Luttrell
Luttrell Engraving Inc.
Alsip, Ill.*

Social Security: An Unfair System

In the discussion on taxing Social Security on the basis of income and the attack on entitlements [Editorial, October], I agree the entitlement program should be overhauled, but I have some reservations about taxing Social Security.

As a longtime small-business owner, I think Social Security has been unfair. We



PHOTO: CHUCK BRAZIL—UMPHOTO

were never asked if we wanted to include ourselves but were told to contribute fully to Social Security for ourselves and a portion for each employee. When we retire, we will receive no more or less than the employee who paid only a part.

Ever since the inception of Social Security, the politicians have seen fit to fund their welfare schemes with the trust funds provided by the working people. Legions of people receive various welfare benefits from trust-fund reserves, but they have never paid a dime into the system.

If I am able to increase my retirement income by other means, that should have no bearing on what I receive from Social Security. And Social Security should not be taxed.

*Robert D. Willis
Willis & Griffith
Insurance Agency
Ventura, Calif.*

What Do They Do?

As a small-business man, I am appalled that I must pay for 21 employees to support my congressman [Editorial, January].

I would like to know what these people do. I wish you would give a breakdown on what

these 11,500 people do. I hope they are all required to be in the military reserve; they are enough to defend Washington in a crisis.

*Robert R. Williams
Robert R. Williams Co.
Mobile, Ala.*

(Editor's Note: The editorial referred to the 11,500 employees of the 535-member Congress. Most of these employees work in the offices of individual senators and representatives, on the staffs of committees, or in support activities. Those in congressional offices include researchers on legislative issues, caseworkers who try to resolve constituents' problems, media-relations personnel, secretaries, and clerical help. Congressional committees employ staff members who assist members in dealing with specific legislative areas. In most cases, the majority and minority blocs of each committee have separate staffs.)

Send letters to Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20002-2000, and include your phone number. You may fax your letter to (202) 887-3437. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.

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Entrepreneur's Notebook

By Mike Weaver

Step Aside To Stay Ahead

For the first few years after I started Hand Held Products Inc. in 1982 in my living room in Charlotte, N.C., I balanced the checkbook once a year. That's not the way to run a company, but Hand Held always had more than enough cash, so my method worked for us.

The company was profitable from the outset. Hand Held makes a variety of battery-powered, hand-sized computers

gone from being an entrepreneur to being an administrator.

Some entrepreneurs can discipline themselves to do jobs they might not like so that the company keeps growing; my strengths lie in creating something new, not in being an administrator.

Once Hand Held was viable for the long term, I became more of a limiting factor to its growth. I could still track the financial

matters in my head, we were fully audited annually without problems, and I handled the routine matters. But I was not happy.

I wanted to work on the creative side of the business, bringing new products to life—and certain day-to-day operations, policy, and procedures would slide along or just wait until I made time for them.

For me, turning over the job of chief executive was in my best financial interest and in Hand Held's, too, if it were to continue to grow. In addition, the move would return a lot of the fun of business for me.

You don't turn over your company—your baby—to just anyone. And because I saw a great future for my company, I didn't consider selling it. I needed to find a seasoned business manager, someone who would be the right fit for the company and whose philosophies would be compatible with mine, someone with different perspectives to help expand the company. Henry W. Bennett, hired in August 1990 to be president and CEO of Hand Held Products, is one of those guys who like finding a way to squeeze more from a set budget. He understands and is good at the things I don't enjoy doing.

Since Hank was hired, the operational improvements have been obvious. The company has reduced the time between receiving an order and delivering it from its frequently late schedule to a few hours; it has cut inventory by almost 50 percent; and it has raised gross margins by more than 10 percent. It's a more efficient company because someone who under-

stands the fundamentals got in there and helped it evolve.

My job, meanwhile, has been redefined. Technically, I'm chairman of the board, but my role also involves finding new opportunities for technology and business, the kind of activities that change the basic definition of the company. I also now coordinate technological developments with four affiliated companies.

I have the freedom to create, suggest, and direct new products, while having the luxury of time to travel and enjoy some of the benefits of achievement. I have renewed for myself the entrepreneurial spirit I value, the mind-set that caused me to go into the business in the first place.

Transition is not taught in business schools. The focus there is on starting a company, building a company, and running it until you retire. But that doesn't cut it for a lot of entrepreneurs; it didn't work for me. Thanks to supportive partners, I made the transition.

It's important for entrepreneurs to know what they are good at. Some people can learn to do well something new, but many cannot or choose not to change.

If you don't want to take on something new and make it the thing you do best, then find the right people, and empower and support them to move the company forward.

It may be hard to give up control of your business, but in the long run, it's a lot easier than watching your company fall short of the potential you know it can achieve.

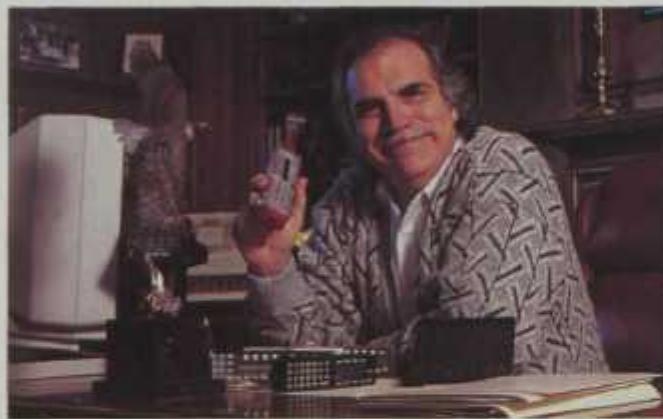


PHOTO: SQUARER HALL

Free to create: Mike Weaver, whose firm makes hand-sized computers, hired a manager and returned to entrepreneurship.

that scan and store bar-coded information. The firm grew quickly, but it carried excessive inventory and was often late delivering orders.

I realized that Hand Held needed to improve efficiency to maximize sales and earnings in order to realize the company's full profit potential. The best way to do that was simple, I thought—I had to go. Someone else had to run day-to-day operations and be the chief executive.

When I reached that decision about four years ago, I realized that the company and I both needed a change. As Hand Held had grown to about 50 employees and \$15 million in annual sales, I had

best financial interest and in Hand Held's, too, if it were to continue to grow. In addition, the move would return a lot of the fun of business for me.

You don't turn over your company—your baby—to just anyone. And because I saw a great future for my company, I didn't consider selling it. I needed to find a seasoned business manager, someone who would be the right fit for the company and whose philosophies would be compatible with mine, someone with different perspectives to help expand the company. Henry W. Bennett, hired in August 1990 to be president and CEO of Hand Held Products, is one of those guys who like finding a way to squeeze more from a set budget. He understands and is good at the things I don't enjoy doing.

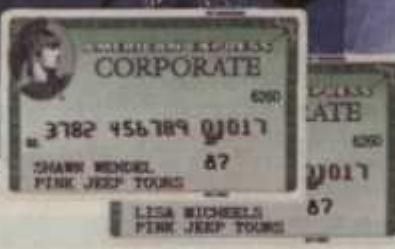
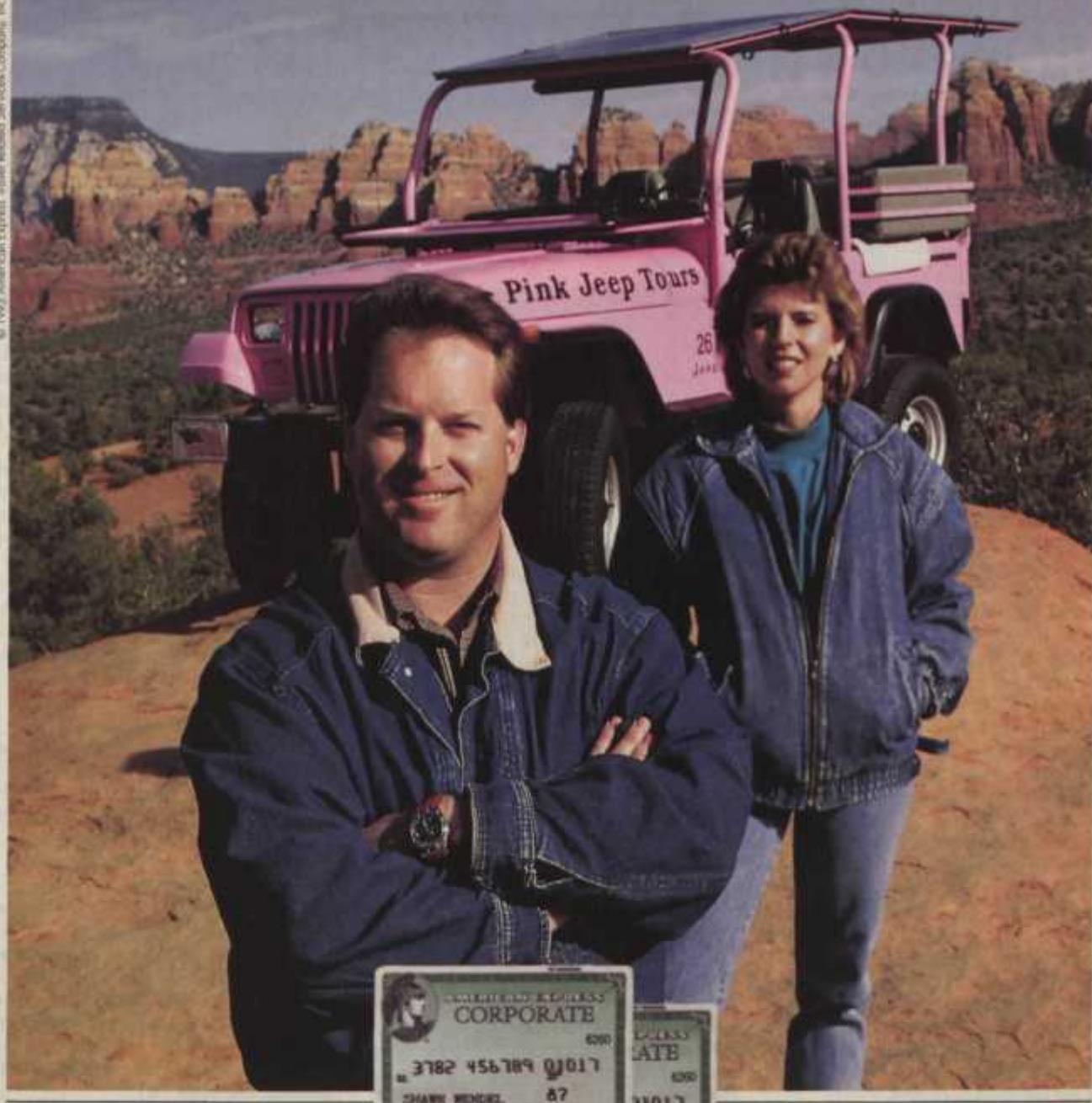
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Mike Weaver is chairman of the board of Hand Held Products Inc., in Charlotte, N.C. He prepared this account with Nation's Business Contributing Editor Charles A. Jaffe.

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20006-2000.

What I Learned

A successful business can reach a critical mass if it grows from a small to a large enterprise. Beyond that, growth seems to require having someone with the focus, expertise, and knowledge of organizational management dedicated to the top job.



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HOME BUSINESS

How To Get Along With Family Co-Workers

When family members work side by side in the close confines of a home-based business, preserving their good relationship presents a special challenge.

Coralee Kern, 60, began her maid business geared to well-to-do clients in the Chicago area 22 years ago with her son Kevin, now 37. As president and vice president, respectively, of a business that boasts 87 full-time and part-time employees—55 maids, 32 waiters—they work so well together that they are planning to start another new business.

But it took years to develop that synergy; they had their share of conflicts in the early years—among them, sulking and power plays that led to Kevin's leaving the business two or three times.

"When we started, I was 15," says Kevin. "I didn't know much about business or working with people. It takes a level of maturity that I didn't have for a few years. The best thing is to go out and work for someone else first."

The Kerns offer these tips for making



A professional office atmosphere has helped Coralee Kern and her son Kevin make a success of the maid-service business they run from their home in Chicago.

this home-based business arrangement work:

Maintain a professional relationship. Put aside the family connection during working hours; address each other accordingly.

Create an office atmosphere. This makes it easier to treat one another as business partners and to focus on work, not personal business.

Define specific, complementary job functions. Minimize friction from the outset by listing what must be done and who is best-suited for each job.

Talk about problems. Brooding about unresolved business conflicts will sooner or later impair your personal relationship.

Set up rules—and specific working hours—to help separate work and business. It's best that you don't discuss business matters outside of business hours, unless an urgent problem arises.

Respect each other's space. Try to have private work areas, and plan time away from each other during the day, even if just for errands.

These guidelines may be even more critical for couples when both spouses work at home, even if they work at two different businesses, says Kevin Kern, because they can't go their own ways at the end of the day. Whatever the relationship, he says, working together at home takes trust and mutual respect.

[For more information about family business, see Page 70.]

—Roberta Maynard

PLANNING

Larger Companies May Help As You Expand Your Firm

"Strategic planning," a buzz phrase within big companies in the 1970s and 1980s, can help small businesses succeed in the 1990s, says Roger Sekera, in the Alexandria, Va., offices of the A.T. Kearney Executive Search organization. He suggests that a small firm find a bigger one to work with in developing and selling products.

The main reason, says Sekera, is that small firms can bring only limited resources to bear in a globally competitive economy.

"Our burn rate is high," he says in speaking about small companies; "we're living off savings, for all practical purposes. So rather than assemble a sales force and basically put together a marketing effort and brochures, we'd be far

better off to leverage ourselves by finding somebody to do it for us."

Sekera admits the idea isn't new. Smaller companies have been allying with larger ones for generations, for a variety of reasons.

What's different now is the economic context. Never has it been tougher, he says, "to get products off the ground and onto the market."

Sekera cautions that alliances with bigger companies for anything, on any level, must be done with great care. The successful examples in Sekera's files share certain qualities.

For example, the smaller companies know exactly what they want from the relationship with a larger company before getting into it.

Some are after money, or getting a product going, or access to managerial, manufacturing, or sales muscle. Whatever

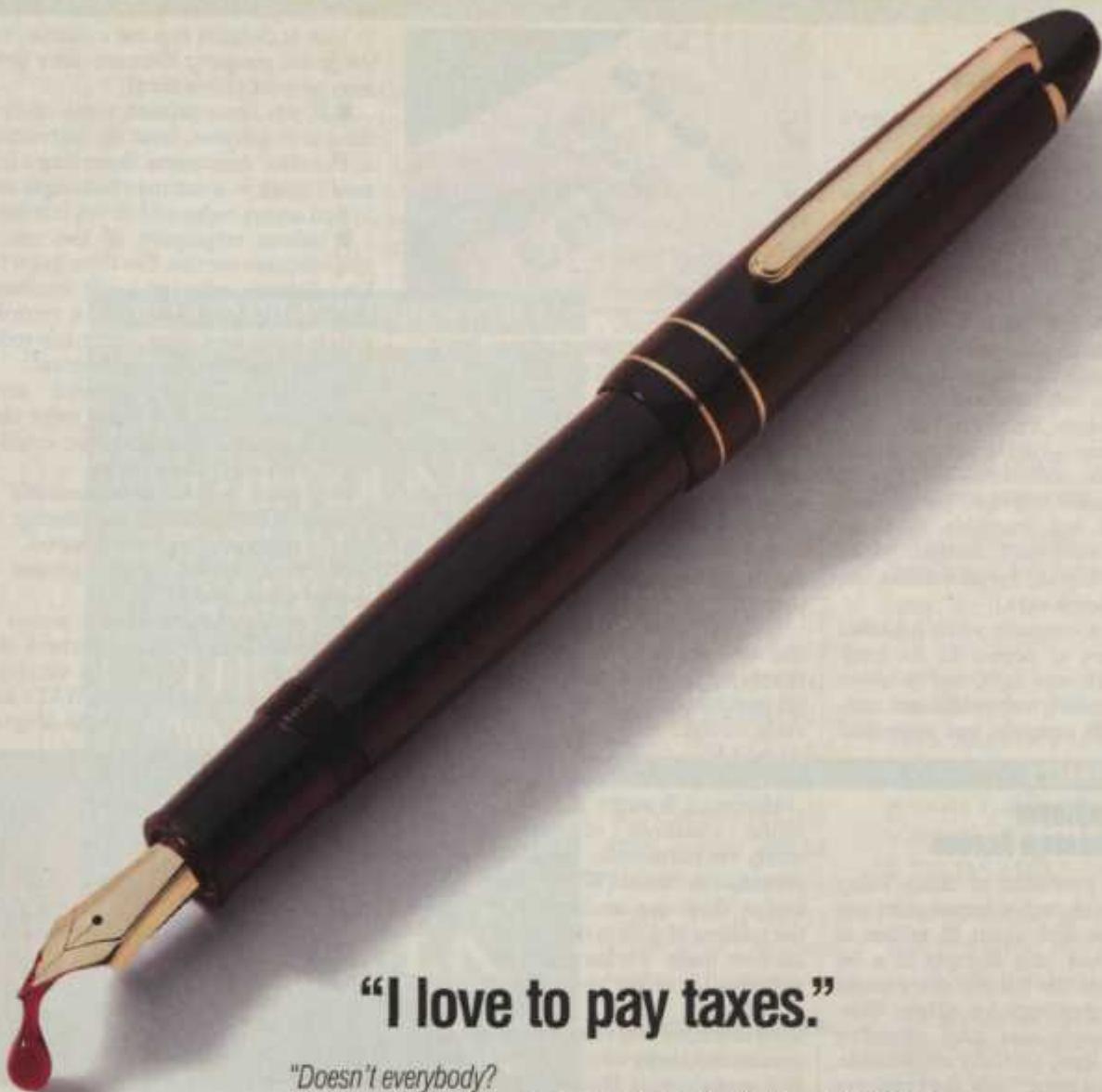
the quarry, it must be finite and definable.

In addition, the smaller companies must be prepared at all times to back away, says Sekera, "if you find that things are moving in a direction you don't want them to go."

That can be true if the larger company drags its heels or in other ways fails to develop or push the product. "When you sense that, you must act decisively to get out," he says.

Although larger companies have the advantage in money and legal talent, says Sekera, they don't hold all the cards. What they're looking for in the smaller company is something they frequently can't come up with on their own: an idea that's sound and solid and almost ready to go. That's important strategically, says Sekera, as demands for getting products out faster intensifies worldwide.

—John S. DeMott



"I love to pay taxes."

"Doesn't everybody?

"I don't mind paying my share, but every dollar I pay in taxes is a dollar I don't have for my employees, my business, or myself.

"Lately, I've been working with Connecticut Mutual.

"I'm learning tax-favored ways to give my people the benefits they deserve.

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COMMUNICATIONS

Ways To Prevent Unauthorized Phone Use

Employees' personal use of the company's long-distance service is the most common form of unauthorized phone use, but business owners should know that phone fraud has also become big business, says telecommunications consultant Jan Smith, president of Training Technologies for Business, in Chicago.

"Telecrooks" are paid as much as \$10,000 a week to gain access to phone systems by electronic means or through employees who sell numbers and access codes to outsiders. They are paid, says Smith, by anyone—even drug dealers and organized-crime members—looking for free long-distance service, particularly with numbers not traceable to them. Access to a voice-mail system, which might be used illegally for six months, can cost \$10,000, Smith says.

The cost to a company when a hacker has four hours of access to its long-distance service, she says, can be about \$25,000. Particularly vulnerable are companies with 800 numbers and voice-mail



PHOTO: MATTHEW BORKOSKI—FOLIO, INC.

Wrong numbers: Are your phones being used in unauthorized ways?

systems because they can be used to get access to outside lines.

To check your phone use, determine your company's normal phone traffic, the average number of calls per day, and peak use times. Variance from the norms would signal a possible problem.

Most unauthorized use occurs at night and on weekends, so check those times closely on your bill. Nonetheless, phone-bill monitoring may not uncover problems early enough, Smith says. You may need

to look at detailed reports available from the phone company. Here are more tips to help prevent phone fraud:

- If you issue printed phone instructions to employees, treat the instructions as classified documents. Searching a business's trash is a common technique used to find access codes and direct numbers.

- Inform employees of the cost of long-distance service. Let them know that long-distance calls are being monitored. Just telling employees that a record of calls is being kept, says Smith, can reduce the next month's bill by 20 percent.

- Consider using personal access codes. Employees may think twice about making nonbusiness calls that could be readily traced to them.

- If your vendor is responsible for remote maintenance or monitoring, ask how your access codes are secured.

- Disconnect or remove phones not assigned to an individual.

- Restrict long-distance access to those who need it. Forty percent of all phone fraud is conducted by employees through unauthorized use of WATS lines.

—Roberta Maynard

WORKPLACE SAFETY

How One Employer Gets The Message Across

Wayne Ruth, president of Hunt Valley Masonry, a brick and concrete company near Baltimore with about \$5 million in sales yearly, has long thought it a bit unbalanced that the federal government stiffly fines employers for safety violations but doesn't also hold offending employees at least partially responsible. "Right now," he says, "only the employer is fined. Only the employer is cited."

After all, Ruth says, if an employee gets caught speeding in his employer's truck, doesn't the offense go on the employee's driving record?

Ruth admires the system in Ontario, where workers are fined, for example, if they don't wear appropriate and available safety equipment on the job.

To protect himself as well as employees, Ruth is doing what he can to impress workers with a sense of obligation for their own safety. In little seminars called "toolboxes" held a couple times a month after lunch on company time, Ruth's 60 to 150 brick and concrete workers are drilled in Hunt Valley's safety practices, and they are encouraged to speak up about safety issues.

Employees appear to like the sessions because of the encouragement to become involved. And the company's managers can tap workers' thinking about how to improve safety, often the best source of fresh ideas. Says Ruth: "There's this misconception that employers are against safety. That's not true. Safety makes sense from a human standpoint, and it makes sense from a financial standpoint."

Maximum fines for individual willful violations of federal safety requirements went up sevenfold in 1991, to \$7,000. This means fines can multiply into the millions of dollars depending on how many workers are involved in the safety violations.

Although actual penalties have averaged less than half the maximum, they're still expensive enough, says Ruth, to warrant employer/employee programs on workplace safety.

—John S. DeMott

NB TIP

Help For Troubled Taxpayers

It's tax time, and if you find yourself with a problem, there's a free, little-known Internal Revenue Service problem-solving operation you can call for help. It's called the IRS Problem Resolution Program (PRP), and its specially trained trouble-shooters can cut through the red tape to resolve your problem.

"If you have correspondence going back and forth [with the IRS] and things just keep dragging on," says Marjorie Joder, president of Accounting and Tax Associates, in Naples, Fla., "this service really works fast."

But you can't just pick up the phone and call the PRP, Joder explains. You have to try to resolve the problem first through regular channels.

Usually the first place to call is the telephone number listed on correspondence from the IRS.

If you've tried to resolve the problem



PHOTO: JASON GOREL

Safety pointers: Wayne Ruth with employees Russell Jones, bottom left, Chuck Ledbetter, Isaac Walton.

and find yourself getting nowhere, or if you've received an IRS notice threatening drastic action, dial 1-800-TAX-1040. You'll get a screening phone interview with an IRS employee and, if you qualify, a referral to your own IRS problem-resolution officer (PRO). Typically, you will work only with this person.

"If your problem is really complex or you are disputing an IRS ruling," tax-expert Joder says, "you might be better off working with a paid professional."

If you don't have a tax accountant or attorney, you might try calling the National Association of Enrolled Agents for the names of private-sector problem-resolution specialists in your area. The number is 1-800-424-4339.

IRS Publication 910, *Guide To Free Tax Service*, can give you more information on the Problem Resolution Program and other IRS information services. It is available from your nearest field office.

—Peter Weaver

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Dateline: Washington

Business news in brief from the nation's capital.

By Albert G. Holzinger

REGULATION

Family-Leave Requirements To Take Effect This Summer

Beginning in August, employers of 50 or more workers will be required to offer employees up to 12 weeks a year of unpaid leave to deal with the birth or adoption of a child or with a serious illness affecting themselves or close relatives.

This newly enacted mandate, which covers workers employed at least 25 hours a week for a year or more, also requires employers to continue health-care benefits during the leave period.

Companies will be allowed to deny leave to the highest-salaried 10 percent of workers if their absence would result in "serious and grievous injury" to business operations.

Employers also will be allowed to demand medical or other certification of the need for leave and demand reimbursement of health-care premiums for the leave periods if employees do not return to work. (A detailed report on the new law's provisions will appear in our next issue.)

LABOR

Striker Bill Is On Back Burner; Civil-Rights Cap Issue Is Hot

Legislation that would bar employers from permanently replacing striking workers will not pass during the first 100 days of the Clinton administration, predicts Sen. Nancy Landon Kassebaum, R-Kan., the new ranking minority member of the Labor and Human Resources Committee.

While her committee could approve the controversial measure at any time, it is unlikely to come before the full Senate "anytime soon," Kassebaum told the labor-policy panel of the U.S. Chamber of Commerce, which helped lead last year's successful fight against striker-replacement legislation.

However, the senator does expect quick action on a bill to lift the caps on punitive damages contained in the Civil Rights Act of 1991. The civil-rights statute made it easier for employees to prove discrimination against employers. However, the statute put a limit of up to \$300,000, depending on the size of a business, on the amount of damages that could be collected for violations of the law.

—David Warner

INTERNATIONAL TRADE



PHOTO: LAURENCE LEVIN

Sen. Daniel Patrick Moynihan sees talks producing "a very good world trading system."

Moynihan Bullish On Long-Term Trade Prospects For U.S.

"I'm very optimistic" about America's future as an exporter, says Sen. Daniel Patrick Moynihan, D-N.Y., the new chairman of the Senate Finance Committee, which has jurisdiction over trade as well as tax issues.

"I can see a very good world trading system coming out of the next 10 years of negotiations" among America and its commercial partners, Moynihan recently told a gathering of business and trade association representatives in Washington, D.C.

He specifically praised the North American Free Trade Agreement, which Congress will consider this year, and developments in the ongoing round of multilateral trade talks among members of the General Agreement on Tariffs and Trade (GATT).

Barriers Still Confront U.S. Firms In Japan

Despite years of negotiations, lingering obstacles still impede U.S. companies seeking to do business in dozens of sectors of the Japanese market, including agricultural products, automobiles, biotechnology, chemicals, computers, financial and

legal services, and paper and wood products, according to the American Chamber of Commerce in Japan (ACCJ).

The ACCJ's annual white paper gives background and proposes remedies for each area of concern to many U.S. business people. The concerns include failure to enforce existing anti-monopoly laws; lack of transparent rules and regulations; and incompatibility of standards, regulations, and testing practices with internationally recognized ones.

"While this [report] focuses on remaining barriers to foreign firms in Japan," the report says on a conciliatory note, "the ACCJ also recognizes the continued efforts by Japan to liberalize its economy. Efforts to promote imports by various government agencies are to be commended." These efforts, says the document, include reducing tariffs and eliminating some nontariff barriers to foreign products.

However, the white paper continues, "years of protection...coupled with export-driven strategies have shaped a business environment inherently unfavorable to foreign firms."

Copies of the white paper will be delivered to key trade officials of the Clinton administration. If you would like a copy, one is available for \$24 by calling (202) 463-5460.



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Making It

Growing businesses share their experiences in creating and marketing new products and services.

More Than Hot Air

By Maxine Lipner

Louis J. Pearlman may have his head in the clouds when it comes to business, but in his case that's a very good thing. Pearlman, the founder and chief executive officer of Airship International Ltd., based in Orlando, Fla., is the man behind promotional blimps seen above major sports contests and other special events around the country.

Unlike the Goodyear and Fuji Photo Film blimps, which carry those companies' names exclusively, Airship International's blimps loft the names of various customers—companies such as Budweiser beer, Sea World, and Metropolitan Life Insurance Co. Frequently they light up the night skies with full-color computerized signs—logos, messages, and even animation.

Pearlman's blimps also serve as network television camera platforms. The 194-foot airships, filled with nonflammable helium, carry gyro-stabilized cameras that can lock in on a golf ball from 1,000 feet away.

Pearlman's success story began in 1985, when McDonald's Corp. test-marketed the blimp and became Airship's first client. Since then, business has taken off, with sales of close to \$12 million in 1992.

It's everything a "blimpnik" from New York City could hope for. Pearlman, 38, first fell in love with dirigibles as a 10-year-old, when he caught sight of one of the famous Goodyear blimps hovering above the 1964 World's Fair, near his Queens home. After seeing the ship moored nearby, he went over and hitched a ride.

Pearlman was hooked. For the next few years, he spent much of his free time hanging around the New York base for the two Goodyear blimps. Finally, at age 16, he was hired during the summer to work as a crew member; he continued doing that during off months right through college.

Maxine Lipner is a free-lance writer in New York.



PHOTO: T. MICHAEL KEPA

Louis Pearlman fell in love with blimps as a 10-year-old; now his company's mini-fleet includes an airborne likeness of Sea World's Shamu, the whale.

While working for Goodyear, he discovered that the television coverage that the blimps provided during sporting events was free of charge to the networks. "I said, 'Gee, how nice of Goodyear,'" he recalls with a laugh. "Well, I learned that by providing a free camera in the air for the networks, Goodyear would get a mention—two verbal and two visual per hour. Sometimes those mentions could add up to hundreds of thousands of dollars' worth of free publicity."

After college, Pearlman started an aircraft-leasing company and then a helicopter sightseeing operation, both in New York, but neither satisfied him as a substitute for his main love, blimps. By the early 1980s, he was convinced that a company leasing blimps to advertisers could indeed be a high-flying success.

In 1982, Pearlman pulled together \$250,000 from his savings, friends, and relatives, and set about launching Airship International. He used this seed money to lease a blimp from a German company while he tried to get Federal Aviation Administration (FAA) approval to operate his own blimp.

After three long years, Pearlman finally got the FAA's blessing. He held a public offering in which he raised \$3 million to purchase the blimp he was leasing. He then persuaded McDonald's to take a chance on the new company with

a 30-day regional contract; McDonald's renewed for 60 days, then 90, and finally agreed to try the program on a national basis for a full year.

It was during this yearlong contract that Pearlman encountered his first bit of turbulence. While the McDonald's "McBlimp" campaign was supposed to be national, Pearlman had only one blimp, which traveled at a mere 30 to 60 miles per hour. Some franchisees felt left out. "When the blimp was on the East Coast, the West Coast didn't see it, and vice versa," Pearlman says. "We couldn't be everywhere with one blimp, and we couldn't get the FAA's approval to build [another] one." McDonald's did not renew its contract.

Fortunately, thanks to the publicity the McBlimp received, other large companies had noticed Airship International. By 1987, the Airship blimp was carrying Metropolitan Life Insurance's name aloft.

With the first profits rolling in, Pearlman began raising his sights. He put together a \$6 million proposal to build Blimp Port USA—a Florida-based, 43-acre theme park that would be open to the public for sightseeing rides and would also serve as a manufacturing center and hangar, for what Pearlman hoped would become a fleet of blimps.

In May 1989, Pearlman won FAA certification for the project; success



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MAKING IT

seemed assured. Then, a month later, a tornado struck the Met Life blimp while it was moored in San Antonio. The 17-year-old airship was all but destroyed. Instead of rebuilding the old blimp, Pearlman purchased a new one from a British firm, Airship Industries UK. The \$4.8 million ship was in operation within 90 days.

In 1990, Pearlman bought another ship from the British company; Sea World snapped it up, and it became the popular Shamu I. Around that time, Airship Industries UK began to suffer financial woes, and it went into receivership after the cancellation of some military contracts.

As a result, Pearlman found himself in a position to purchase three additional blimps, in various states of completion, for a virtual song. "The [British] company spent over \$100 million developing the blimps—we moved in and bought them for pennies on the dollar," Pearlman says.

"All said and done, it cost us about \$6 million to acquire them."

The first of these three additional blimps was made ready to fly at the Elizabeth City, N.C., manufacturing plant that Airship International is renting until it completes Blimp Port USA in 1994. Initially lofted by Sea World as Shamu II, this ship was later recommissioned for use as the Budweiser blimp.

Pearlman hopes to complete work on the second of the three new blimps sometime this year and to have the third flying in 1994.

Pearlman needn't wonder whether he will have customers for the use of the additional blimps (he charges \$350,000 to \$400,000 a month). Airship faces almost no competition, with the exception of some hot-air-balloon companies that offer similar advertising and a company that offers the use of a much smaller airship.

"Our blimp has 235,000 cubic feet; the

next largest airship that I know of that's certified is about 69,000 cubic feet, so we're almost four times that size," Pearlman says. Goodyear's blimps are as large as Airship's, but Goodyear uses them only for its own purposes, as does the Fuji Photo Film Co., Ltd., which lofts another well-known blimp. That leaves the field open for Airship.

Despite Airship's enviable marketing position, and an initial blush of success in the second year of operation, the company did not turn a profit again after that, because, Pearlman says, it was plowing so much money back into additional airships. But "we're now profitable again," he says, and he believes that adding a fourth blimp will "put us in a very high cash profit position."

And that, he suggests, is just the beginning: "If we had a dozen airships in the United States, we couldn't cover all the events."

Health Is Her Business

By Sharon Nelson

From the time she was 12 years old, Janis L. Hahn knew she wanted a career in radiology.

And a life-or-death battle with cancer that began five years later—accompanied by operations, chemotherapy, and radiation—did not deter her.

Today, Hahn, who is 39, owns Radiology Relief, Inc., a temporary-personnel service in San Diego that provides radiology technologists to hospitals and medical centers.

Hahn's story begins in her hometown of Trumbull, Conn., where, as an adolescent, she served as a volunteer at a convalescent home run by Carmelite nuns. "I was assigned to a sister who ran the radiology department," Hahn recalls. That set her course.

At 17, Hahn developed ovarian cancer. With home tutoring, she finished high school. But after graduation, her illness made it impossible for her to start radiology school at either of the two institutions that had accepted her—a nearby hospital and the Yale School of Radiography. The following year, officials at the local school said they thought Hahn was still too sick to attend and suggested she become a medical secretary instead.

"Nobody's going to tell me no," she told herself. She called Yale to see if they still wanted her. They did, and she completed the two-year program in 1974.

On her first job, at a hospital in New Rochelle, N.Y., Hahn worked the night shift. She started receiving calls from



Unbeaten by cancer. Janis L. Hahn founded a personnel service for radiology technologists.

technologists who worked days asking her to cover for them when they took time off. She nearly doubled her income. "It's what planted the seed," she says.

She went to work for two doctors and began to think seriously about moving to California—a desire she'd had since she visited the state several years earlier. One

of her bosses had a particularly bad temper. "Every time he yelled at me, I sat down and wrote out a check for \$50," she says. Each check was deposited in a savings account in California. By the time she was ready to go, she had \$2,000 waiting for her.

Hahn settled in San Diego in 1979 and took a job in a clinic, but the work was so routine that she quit and began free-lancing again. Before long, the available work outstripped her available time, and she began hiring other technologists to help out.

Radiology Relief now bills around \$1 million annually (down from pre-recession highs of \$1.3 million to \$1.5 million a year) and employs 35 full-time and part-time people.

When Hahn was named winner of a "Women of Enterprise" award by Avon Products and the U.S. Small Business Administration in 1990, she was so inspired by the stories of her co-winners—entrepreneurs who had overcome such problems as alcoholism and marital abuse—that she decided she had to do something more. "I only had cancer," she jokes.

She started Specialized Imaging of Rancho Bernardo, a center that provides ultrasound and mammography services at lower cost. It has been a real gamble. She has yet to make a profit. But she says her aim with the younger business is not to make big money but to educate women and encourage them, especially those on lower incomes, to get mammograms.

Hahn hasn't been stopped yet. And she can laugh at the headline on a story that a national tabloid once wrote about her. It said: "Dying Girl Starts Million-Dollar Business." She has survived cancer for 22 years.

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MAKING IT

The Portable Tycoon

By Michael Barrier

"I want the atmosphere around here to be a lot of fun," Marc Kreiner says. To that end, his Hollywood-glossy offices in Marina del Rey, Calif., include such atypical accoutrements as popcorn and snow-cone machines. He usually brings his dog to work with him.

The fun doesn't seem to interfere with the work; Kreiner's company, Road and Show Cellular, is from all appearances a roaring success, one of the strongest players in the booming new business of cellular-phone rentals.

Kreiner started the company a little over two years ago, with only six phones; by early this year, he was renting more than 11,000. In addition to renting phones directly, he has hooked up with major companies in the travel industry—United Airlines rents Road and Show cellular phones through its Red Carpet Clubs, for example.

Kreiner, who turned 39 in January, says that Road and Show's sales, only \$3 million or so in 1991, grew to \$15 million last year. He isn't worried that his strong numbers will attract well-heeled competitors. "Anybody can buy phones," he says. "The key is the service." For one thing, he says, he has a long lead in developing computer software that lets him track the location and performance of each of his phones. Thanks to such advantages, he says, "I think I have a solid window of two years before anyone can touch what I can do."

Kreiner has good reason to both enjoy his success and not take it too seriously. He knows from experience how easily success can slip away. When he was 19, Kreiner recalls, he was a disc jockey at a Marina del Rey discothèque: "It was like the *in* disco for all the entertainment people." One of his acquaintances from the disco encouraged him to buy the rights—for \$6,000, half of which he borrowed—to a disco recording. That record, "Dance, Dance, Dance" by the group called Chic, sold 6 million copies.

After that, he says, "everything I touched turned to gold." As a producer, he says, he was responsible for more than \$1 billion in record sales, with more than 100 gold and platinum albums to his credit; some of them hang on his office walls now. *People* magazine wrote of his "lifestyle of flaunted opulence."

In the midst of this charmed life, Kreiner recalls, someone he trusted told him, "Try this." "It felt great," he says. "I loved it. It was never the same after that, but I kept chasing the same feeling." What he had tried was cocaine.

He drank heavily, too, and his money started to slip away: "I did a lot of



Once a high-flier in the music world, Marc Kreiner has made a new career in cellular phones.

gambling, and my travel expenses would be \$25,000 or \$50,000 a day. I was the best friend to have; I just took care of everybody's bill."

When he finally sobered up, "all of my craziness caught up with me. I had signed a lot of personal guarantees for million-dollar loans for friends." He went bankrupt in 1983 and wound up with \$300 to his name, sleeping on a friend's couch.

After his bankruptcy, Kreiner got a job at a record company, "but it just wasn't the same," he says. While he was considering alternatives, Kreiner stopped by a friend's car-rental agency. It struck him that he could use his contacts in the entertainment industry to open an agency himself.

After working in that industry at a rarefied level, he says, "I knew what I liked; I knew the kind of service that I liked." And he was sure that other people

would like the kind of service that he liked—service that had a strong element of glamour, of fantasy.

He decided that he could use fantasy to separate himself from competitors, by putting the drivers who delivered the cars into formal attire. "It was glitz," he says. "It made a statement."

Kreiner had no cars of his own—he was broke—but he rented cars from other agencies, using his mother's credit card, then re-rented them to movie studios for two or three times as much as he was paying for the cars himself.

"My first year in business," he says, "I did \$1 million, with no inventory. I never advertised, and I never put my number in the phone book. It was all by word of mouth. I started with two employees, and we were up to nine employees within three months."

Late in 1990, Kreiner started hearing requests for cellular phones. "It was like, one too many times I was asked. So I started doing some checking into who was renting cellular phones, and I found a so-so market out there. I said to myself, 'Wait a second. If I've got my guys in tuxedo shirts and bow ties, and they're not delivering cars, maybe they can be delivering cellular phones.'"

From that all but accidental beginning, Road and Show has taken off. Kreiner still has the car-rental agency, too—its revenues are about \$3 million a year.

Kreiner makes a point of keeping his service not only broad, with free pickup and delivery in some cities, but also absolutely up-to-date—"as the phones get smaller, we get smaller"—but he faces the strong possibility that technology will soon outrun his company. Not only will his potential customers be able to buy ever smaller, ever more portable, and ever less expensive phones, but also by the turn of the century they may have phone numbers that they can carry with them wherever they go.

For now, for most business travelers, using a rented cellular phone on the road is probably cheaper and simpler than taking your own with you, but that will likely change within the next few years. Cellular phones may well be the wave of the future, but renting cellular phones may not be.

If cellular phone rentals do fade in a few years, Kreiner will probably have moved on to something else by then. If he was led into trouble by a try-anything spirit in the past, that same cast of mind may be serving him well now. "I just love challenges," he says.

He has something else on his side, too. "My priorities have really changed," he says. "I feel the reason I'm very successful here is because it's OK not to be successful. As long as I've got self-respect, and food in my system, and friends in my life, I'm fine."



What this country needs is health care that's been given a thorough examination.

Legislation for health care reform may be the toughest decision the 103rd Congress will ever have to make. A national magazine compared it to a process as complicated as overhauling the old Soviet economy. But it is long overdue.

As we see it, whatever legislation is enacted, certain criteria are essential for truly effective health care reform.

Does it provide guidelines for appropriate care?

Two patients with the same diagnosis who live in different

communities shouldn't be treated differently. Both patients should be treated based on the best clinical knowledge available. In the past there has been little review of the appropriateness of individual treatments. In fact, some medical experts have concluded that up to 30 percent of all medical procedures may not be worthwhile.

We believe there should be explicit guidelines developed to determine which particular medical procedures produce the best patient outcomes, and which do not.

Does the plan encourage preventive care?

A plan that only provides benefits once a person has become sick, doesn't make much sense. Checkups, tests, and other measures that help people stay healthy are much more effective and a lot less expensive than treating people after they become ill.

Does it improve the delivery of health care?

The current incentive to provide more services rather than use medical resources more

efficiently is a major reason why health care costs are well on their way to absorbing 18 percent of the economy by the year 2000.

The goal, as we see it, is to make sure all Americans receive quality health care at an affordable cost.

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The Prudential 

Training Workers For Tomorrow

By Joan C. Szabo

Leonard Brzozowski, president of Robotron Corp., in Southfield, Mich., discovered in 1988 that 70 percent of the company's heat-treating products had to be reworked after customers put them in use. Among other problems, he found that some workers in a key operation were having difficulty reading blueprints and that overall workplace deficiencies were costing the company \$1 million a year.

The 120-employee firm, with total annual sales of \$18.5 million, produces heat-treatment machinery used mainly to make automotive-engine parts more resistant to wear. The machines are often custom-made, and the inability of some workers to grasp directions on assembling electronic components was undermining product quality.

The \$1 million cost of poor quality was attributed to such things as work having to be redone, parts having to be returned to outside suppliers, and finance charges assessed on some of the projects that were delayed because of reworking.

Brzozowski knew that for his company to survive in a highly competitive industry, he had to move quickly to upgrade his workers' skills. To deal with problems like the one in the electronics area, the company established a broad quality-management program that included targeted programs to improve reading and math skills.

Costs of the training for 1992 and 1993 are expected to total about \$500,000, but Brzozowski believes such initiatives are vital in an increasingly high-tech era. "The skills of my workers have to be continually upgraded to keep pace with

the technological changes that are occurring in today's workplace," he says. Brzozowski also notes that Robotron's investment is paying off: "We've reduced by about 70 percent the number of defects per unit reaching our final test department." In addition, the company has implemented 75 recommendations from employees aimed at saving money or

changing an assembly process to further improve quality.

The paradox that Robotron faced—a decline in basic skills as jobs become more high-tech—confronts companies of all types and sizes throughout the country. Employers increasingly find they need workers with analytical skills, independent judgment, and the ability to work



PHOTO: T. MICHAEL KIZIA

Robotron employees
Loretta Parrish, above, and Rindy Williams, at right, were specially trained to ensure the quality of the company's heat-treatment products.



PHOTO: T. MICHAEL KIZIA

Business, labor, and government must work together to plug the skills gap and keep America competitive.



PHOTO: MIKE HOFFMAN

In Xerox's Rochester, N.Y., "focus factory," employees Michelle Lehman and Frank Trinoa use flexibility in building copiers.

closely with others in complex operations.

An example can be seen in manufacturing, where the practice of having workers perform simple, repetitive, assembly-line tasks is giving way to the concept of teams with interchangeable skills and broad operational responsibilities. These teams need members proficient not only in math and reading abilities but also in the application of computers to manufacturing and service operations. In the construction industry, for instance, workers now use new-generation, power-driven machines, lasers, and robots, which require levels of training far ahead of those needed less than a generation ago.

What is happening in construction reflects the widening gap between job

requirements generally and the skill levels of many job seekers. This chasm is impeding growth for companies and the economy as a whole, says Jeffrey Joseph, executive vice president of the Center for Workforce Preparation and Quality Education, an affiliate of the U.S. Chamber of Commerce.

Projections of job needs through this decade alone spotlight the trend. The American Society for Training and Development, an Alexandria, Va., association of employer-based training professionals, forecasts that by 2000:

- More than 65 percent of all jobs will require some education beyond high school;

- Twenty-three million people will be

employed in professional and technical jobs—the largest single occupational category—that require ongoing training.

In addition, the association says, almost 50 million workers need additional training just to perform their current jobs effectively.

In a related trend, the distinction between management and labor is narrowing, intensifying the need for greater knowledge and skill across a broader cross section of the work force.

As knowledge of the gap between skills and jobs becomes more widely understood, an emerging consensus holds that business, labor, and government must work together to eliminate it.

Plugging the skills gap has been a

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prominent theme of the Clinton administration, which sees achievement of this goal as essential to keep U.S. companies competitive with leading firms overseas and necessary to keep and create good jobs in this country.

President Clinton sees a highly skilled work force as a major incentive to encourage domestic and foreign firms to open facilities in this country. The administration believes that a top-notch work force, with its potential for increased productivity, will offset any perceived advantage for U.S. companies to go abroad in search of cheaper labor. But raising the knowledge and skill levels of the U.S. work force will take a concerted effort by all concerned, Clinton says.

Robert Reich, the new secretary of labor, who is expected to spearhead the administration's efforts to revitalize the American work force, emphasized just how important the work-force issue is to the administration during his confirmation hearings before the Senate Labor and Human Resources Committee: "The American work force is coming to be the American economy. That is the way you begin to define the American economy—in terms of skills and capacities of the people who are here."

A lawyer and former public-policy lecturer at Harvard University's Kennedy School of Government, Reich says a policy that will benefit all Americans is for the federal government to invest in the two assets that won't leave the country. One is "human capital," such as education and job training, and the other is physical infrastructure.

Reich sees education and worker training as key to raising U.S. productivity, economic growth, and living standards. "Unskilled and untrained Americans are losing out. If not competing with low-wage workers abroad, they increasingly are competing with new technologies here at home, which are rapidly replacing routine work of all kinds." Job training can help rescue those who are losing out, he says.

In addition to the new administration's emphasis on worker training, the focus on American jobs of the future has been underscored by the North American Free Trade Agreement, which Congress will consider for approval this year. According to a recent study by the International Trade Commission, an independent federal agency, the pact is expected to result in a short-term loss of U.S. jobs but a long-term gain in employment.

Clinton expects to push for a



William Curtin: Sensitivity to workers is key.

side agreement for retraining workers who lose their jobs because of the trade agreement.

There is also widespread recognition that post-Cold War reductions in defense spending will mean that many defense



Robert George: Training should be negotiated.

workers will have to be retrained. Others who will need training include the hard-core unemployed and the millions who are employed but must continually improve their skills.

As these factors converge and awareness of the skills gap increases, some elements of society are increasing their efforts to address the problem. The U.S. Chamber of Commerce, for example, is moving on three fronts with programs to improve the education system, improve worker-training programs, and help companies adopt quality-management techniques.

In 1990, the business federation sensed the need for concerted action to generate education reform at the local level and established the Center for Workforce Preparation and Quality Education as an affiliate. The center moved immediately to equip local business leaders with the tools to spark education reform.

Among the center's recent accomplishments is a groundbreaking study that analyzed how education dollars are spent by the nation's schools. Financed through a grant from the Indianapolis-based Lilly Endowment Inc., the study devised a school-finance model that enables communities to track every dollar within their school systems, not just in the central office but also in every classroom.

The study's model allows communities to determine inequalities in spending within individual school districts.

The U.S. Chamber also has been on the cutting edge of efforts to promote lifelong learning and retraining. Last year the organization established its Quality Learning Services Division to provide television satellite seminars on quality management.

With state and local chambers of commerce as the link between the Washington-based learning program and individual business people, the seminars deal with topics ranging from global-trade opportunities for small firms to coping with such federal regulations as those for the new Americans with Disabilities Act.

The nation's largest business federation is also developing a plan that would equip U.S. educational institutions, local and state chambers of commerce, and other community sites with the technological tools and multimedia video and computer software to help improve education and training.

Known as the Community Learning and Information Network (CLIN), the

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A Web Of Federal Training Programs

President Clinton has said he wants to cut through the maze of federal employment and training programs to see whether the dollars supporting those programs could be used more effectively. A glance at the existing system shows why.

There are 125 such federal programs administered by 14 federal departments or independent agencies. Total federal funding last year exceeded \$16 billion. The bulk of the programs—and the majority of the funding—are administered by the Department of Education and the Department of Labor.

Many of these job-training initiatives target specific groups such as youth or adults with mental or physical disabilities; 65 of the programs are geared toward the economically disadvantaged. Programs range from adult education for American Indians to health-career opportunities, senior community service, literacy training, refugee assistance, basic skills, summer help for disadvantaged youth, and training for single parents and criminal offenders. Typical services offered include counseling and skills assessment, occupational training, and job placement.

Program Overlap

But there is considerable overlap in the programs, the General Accounting Office (GAO) concluded in a report issued last July. Many programs actually provide similar services to the same target populations, the GAO found.

For example, 40 programs provide

Resources

General Accounting Office: For a free complete listing of federal training and education programs, call (202) 512-6000. Refer to document number GAO/HRD-92-39R, Multiple Employment Programs.

U.S. Department of Education: For details of the department's 49 employment-related programs, call (202) 401-1576.

U.S. Department of Labor: Office of Employment and Training Programs, Room N-4469, 200 Constitution Ave., N.W., Washington, D.C. 20210; (202) 523-6050.

U.S. Small Business Administration: For information on the SBA's training and employment programs, call 1-800-827-5722.

State and local training, employment, or rehabilitation offices. Look in the blue pages of your telephone directory under Employment Services.

counseling and assessment to the economically disadvantaged, and 34 programs provide the same group with remedial or basic-skills training. The Labor Depart-



Manufacturing techniques are the focus for instructor Lee Dye, center, Adrian Harmon, left, and Jimmy Biggs Jr. in a Winston, Ga., program operated under the federal Job Training and Partnership Act.

ment administers a program for migrant and seasonally employed farm workers, while the Education Department has a program for disabled migratory and seasonal workers. There are six major programs in different agencies designed for Native Americans; there are four programs for migrant workers, four for the homeless, and at least 10 for veterans, including one specifically for homeless veterans. These same groups are also eligible for other programs.

Several factors make it difficult to coordinate and integrate these programs, says the GAO, including varying target-group definitions, differing administrative rules (planning cycles, accountability, and data-collection requirements), and competition among programs.

Coordination is further hampered by the fact that funding channels resemble, in GAO's words, "a sieve rather than a funnel." Control of funds lies at several levels. In some cases, funds go directly from the federal government to local agencies; in others, funds go to the state.

For some programs, the amount of money allocated is calculated by means of a formula. Often set forth by Congress, formulas may be based on population, per-capita income levels, or other factors relevant to a particular program. Other programs require states, local agencies, or local service providers to submit proposals for federal dollars.

Sometimes the population to be served is taken into consideration; sometimes it is not. And actual delivery of services is provided by several different entities, again varying by program.

The largest federal training program and one of the four programs that received more than \$1 billion each in funding in 1991 was created by the Job Training and Partnership Act (JTPA), implemented in 1983. Administered by the Education Department, the program offers insight into the federal training infrastructure.

Governors have primary responsibility for overseeing JTPA programs, which are designed and operated at the local level and based on local labor market needs and opportunities. JTPA is formula-based; the states with the highest unemployment and largest population in poverty get the most money. State job-training councils coordinate training activities and make recommendations about training and funding needs to governors.

Still, according to the GAO, many federal training programs suffer from inadequate federal and state oversight, inefficient service delivery, improper program expenditures, and even questionable effectiveness.

At his nomination hearings before the U.S. Senate Labor and Human Resources Committee in January, Labor Secretary Robert B. Reich said, "There has to be some way to integrate these programs to make sure that we create a kind of one-stop shopping, regardless of why the workers are displaced." Reich also suggested that the new administration may place more emphasis on training "noncollege graduates" and on technical training. This change in orientation might help counter criticism that the federal training system is focused more on fringe groups than on raising the skill levels generally of the mainstream of American workers.

The Bureaucracy

The real challenge to changing the system is the "tremendous entrenched bureaucracy in the training area," says Brad Schiller, an economics professor at American University who has designed systems to evaluate training programs. "The problem is that a lot of people are paid to develop and design these programs." In addition, he says, there is no evidence that any of these programs have had a net effect on keeping people employed. A better answer to streamlining existing programs, he says, is to downsize or jettison them or perhaps return to their original purpose, that is, to act as a referral service between employers and job seekers.

—Roberta Maynard

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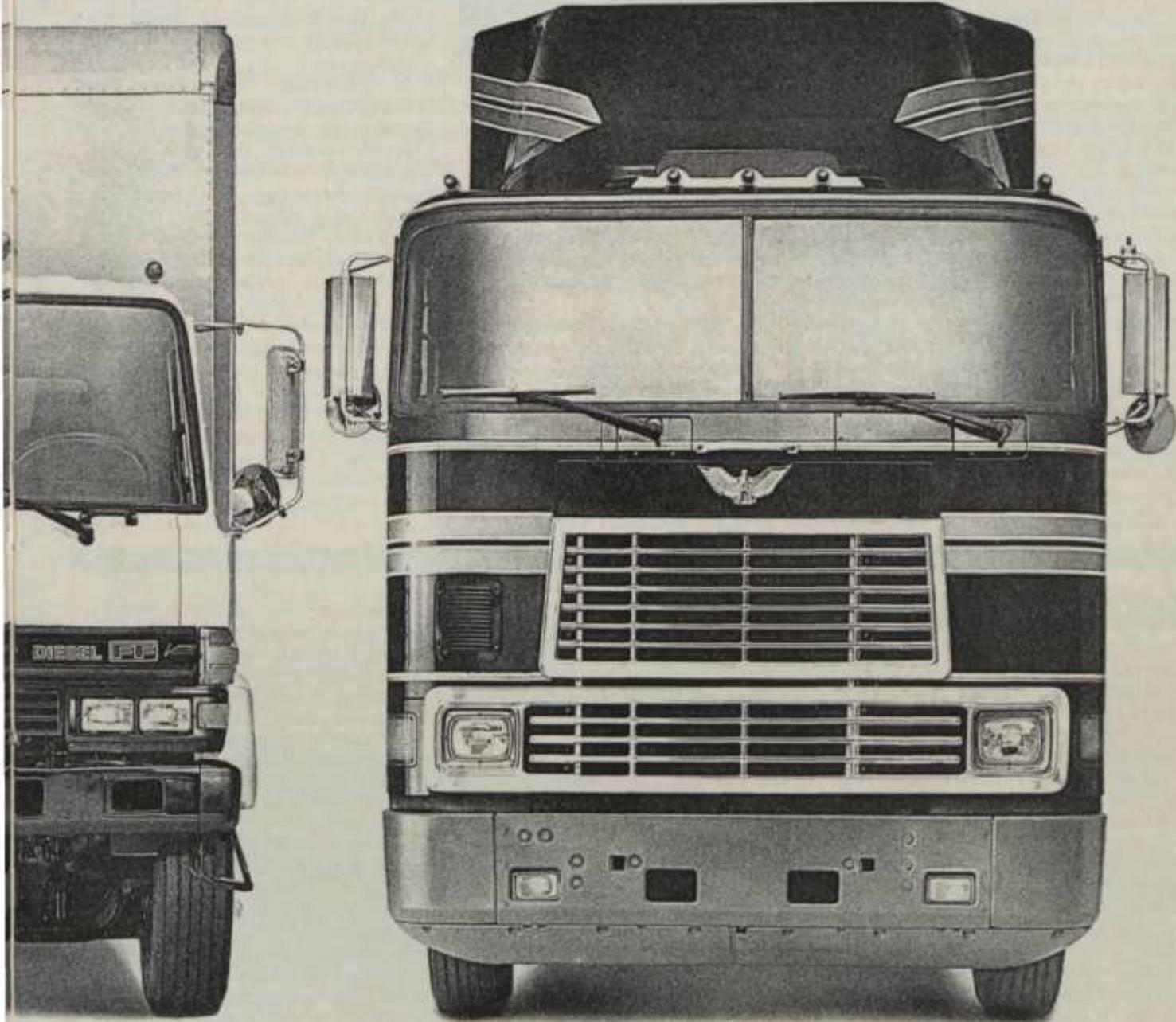
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nationwide plan is intended to deliver a myriad of services to individuals of all ages. These include interactive and self-directed learning software; access to online information and databases; facilities for audio and video conferences; distance-learning capabilities, which permit interactive instructional or training services to be transmitted from a central site; interactive video disks; and electronic mail.

Distance learning represents a major resource in educating and retraining the American work force. And new computing technology can play an important part. If this technology is merged into community-based facilities, members of the network would avoid the costs of building, staffing, and maintaining new facilities. Resources could be shared by schools and others in the community, such as federal, state, and local governments; the National Guard and the Reserves; and private industry. All these entities are engaged in lifelong learning and training and would pay for the time spent using the system.

"The network could become an ideal mechanism for helping small businesses train their workers for 21st-century jobs in an affordable manner," says Joseph. This is an idea that has received congressional support, and the federal government will soon be funding pilot projects of the concept around the country.

Richard L. Lesher, the U.S. Chamber's

Untrained Americans are losing out. If not competing with low-wage workers abroad, they increasingly are competing with new technologies here at home.

—Labor Secretary Robert Reich

president, says the Chamber believes "lifelong learning and training is essential if U.S. industry is to remain world-class, and the Chamber's recent actions are a reflection of that belief."

The Chamber has also made overtures to members of the administration and organized labor, expressing interest in a joint effort to upgrade the work force.

Like the smaller Robotron Corp., larger U.S. corporations have recognized the need to establish cutting-edge training programs. Among the leaders are Xerox Corp., Motorola, Inc., and BellSouth Corp.

Xerox, for example, spends over \$300 million per year for training and retraining its employees, says Gary Aslin, director of Xerox Document University, the

company's major training facility. Located on 2,100 acres in Leesburg, Va., outside Washington, D.C., the university provides the bulk of the company's sales and service training.

One way Xerox is using newly flexible and well-trained workers is in a new plant called a "focus factory" in Rochester, N.Y. The company is building a new convenience copier, using teams of about seven workers each to build entire machines rather than having one long assembly line where each worker performs a single, repetitive task.

At Motorola, headquartered in Schaumburg, Ill., every employee is expected to take a minimum of 40 hours of job-related training each year. "Generally, engineers take well over the 40 hours because technology is changing so quickly," says Margot Brown, the company's media-relations manager.

About half of the information a software engineer learns in college is obsolete five years after graduation, she says. "Education is a way of life, and what makes our work force competitive is constant renewal of themselves and their skills." The training costs more than \$100 million annually and is provided by Motorola University, the company's training arm.

BellSouth Corp., headquartered in Atlanta, also has made a huge commitment to the education, training, and retraining

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Information On Training

Following are useful sources of additional information on workplace training programs and issues.

Publications

Improving the Transition From School To Work in the U.S. This 40-page report describes the school-to-employment problem and outlines strategies for improving career preparation. Copies are available for \$5 postpaid from the American Youth Policy Forum, Suite 301, 1001 Connecticut Ave., N.W., Washington, D.C. 20036-5541.

Corporate Quality Universities: Lessons in Building a World-Class Work Force, by Jeanne Meister, published by Business One Irwin, Homewood, Ill. This book, to be available in June and priced at \$45, offers an in-depth examination of innovative education and training programs at 30 U.S. companies. It takes readers behind the scenes at such well-known corporate universities as Motorola University and Xerox Document University. To order, call 1-800-634-3966.

Bridging the Literacy Gap offers business leaders and the executives of local

and state chambers of commerce detailed guidelines on how to establish literacy programs in communities and at work sites. It includes examples of both chamber-led and corporate-led literacy programs. For a copy, send a \$5 check to the Center for Workforce Preparation and Quality Education, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062-2000.

Training Partnerships: Linking Employers and Providers. This 47-page report looks at the provider community and how employer-provided relationships are developed and sustained. It attempts to help employers make more-informed decisions about purchasing provider training. Single copies are free from the American Society for Training and Development, 1640 King St., Box 1443, Alexandria, Va. 22313-2043; (703) 683-8129.

Seminars

Seminars on quality-management techniques and other business matters are being televised via satellite by the U.S. Chamber of Commerce. Small-business management topics include personnel

management; basic financial management; employee benefits; and business owners' insurance. Quality-management topics include recognition, reward, and incentive programs; business process redesign; and quality strategic planning.

For more information about the seminars, call the U.S. Chamber's Quality Learning Services Division at (202) 463-5570.

Organizations

Jobs for the Future, a nonprofit group in Cambridge, Mass., is working to improve work-force quality in the United States. The group can provide business people with resources on apprenticeship programs. Contact Richard Kazis, Director of Work-Based Learning Programs, Jobs for the Future, 1815 Massachusetts Ave., Cambridge, Mass. 02140.

A. Wayne Rowley, of the Tulsa (Okla.) Chamber of Commerce, has helped coordinate business and education efforts to establish a youth apprenticeship program in his community. He can offer assistance on how local chambers can assist in establishing such programs. You can reach Rowley at the Tulsa Chamber of Commerce, 616 South Boston, Tulsa, Okla. 74119; (918) 585-1201.

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Learning From Germany's Model

Apprentice Michael Dean's workday generally begins with a training session on the fundamental skills and techniques he will need as an electronic-communications technician.

This high-skilled job involves maintaining and repairing complex computing systems that make up telephone digital switching systems serving commercial and residential customers. His training involves learning how the computing systems are assembled, how they function, and how to repair them.

Five months into a new training program launched by Siemens Corp., Dean is working to perfect the soldering of electrical wiring onto a circuit board.

Siemens is a large company in fields that include electronics, electrical and medical engineering, and telecommunications.

"We are learning what quality soldering is and learning how to elevate our personal standards to a higher level," Dean says. "As we work on this, we can better visualize and understand what quality is."

Dean is an apprentice with Siemens Stromberg-Carlson in Lake Mary, Fla. Siemens Stromberg-Carlson, one of Siemens' operating companies in the United States, provides telephone operating companies with advanced, high-quality public telecommunications networks. Siemens Corp. also has started pilot apprenticeship programs at two other U.S. locations—Raleigh, N.C., and Franklin, Ky.

Dean, who was reared in California and has an associate's degree in arts and sciences, is learning the intricate details of this job from a German trainer in a new training center established by Siemens Stromberg-Carlson.

Each week, Dean spends 20 hours at the training center and takes approximately 20 hours in classroom courses at a local community college. There are 20 apprentices in the 2½-year apprenticeship program; most of them are younger than Dean, who is 41.

After completing two years of the apprenticeship program, Dean will receive six months of on-the-job training as a technician. Although he is not guaranteed a position with the firm, "we hope and anticipate that we will be able to hire every single apprentice in the program," says Gary Garman, Siemens' manager of training in Lake Mary.

Dean receives a monthly stipend plus money to cover all tuition and books for his required college courses while he is in the program. When he completes his course work, he will receive an associate's degree in science and engineering technology—an ASET.

Siemens Stromberg-Carlson is working in conjunction with Seminole Community College on this particular apprenticeship program.

The new training program is similar in many ways to the highly respected ap-



High-technology training is provided by Werner Franz, center, for Pawel Chrobok, left, and Michael Dean at Siemens Stromberg-Carlson in Lake Mary, Fla.

prenticeship system in Germany, which Siemens has used with great success there.

Improving quality at all three sites was the primary reason behind launching the new training effort, says John Tobin, Siemens' director of vocational and technical training, and a former New York City principal. "You have to lay out the parameters of quality, and then you have to train workers to produce to that level."

While many European nations have successful apprenticeship programs, the German system, which has its origins in the 500-year-old crafts guilds of the Middle Ages, has attracted the most respect and attention in the United States.

About two-thirds of Germany's young men and women ages 16 to 19 participate in apprenticeship programs, working toward formal certification in about 380 different occupations.

German apprentices spend three or four days a week on a work site learning a craft and one or two days in technical school. It is called the "dual system" because it combines supervised work experience with part-time schooling. Ap-

prentices receive stipends of about \$500 a month.

At the end of a three-year apprenticeship, in which the training received meets standards agreed upon by employers and labor unions, the German trainees take a national exam and secure a certificate of mastery recognized throughout the country.

Individual German states fund the vocational schools, and the companies that take part in the nationwide program spend about 2 percent of payroll on it.

More than 50 percent of German apprentices remain employed with the companies that provided their training. Firms

are not required to hire their apprentices, but many companies see an advantage in hiring employees whose personal characteristics and technical skills are known to them.

After completing their apprenticeships and working for several years, former apprentices can take additional instruction and pass another set of exams to become a "meister," which means master. They generally train other apprentices, and many own small businesses.

Attempts to establish a youth apprenticeship program in the U.S. are under way. The Labor Department has helped launch several youth apprenticeship pilot programs in a number of

locations around the country.

Stephen Hamilton, a professor of human development and family studies at Cornell University in Ithaca, N.Y., and an expert on the German apprenticeship model, notes that the success of a nationwide effort must secure the participation of employers. "Unlike school-based approaches to learning, youth apprenticeship absolutely requires the participation of employers."

While program supporters caution that the German system cannot simply be duplicated in the United States, they note that several characteristics—such as starting the program in high school and establishing skill certification—can be incorporated into a program here.

A nationwide program is likely to win the support of Congress; eight apprenticeship bills were introduced in the last congressional session, but election-year politics made consideration of those measures difficult.

Similar measures will be reintroduced in the 103rd Congress.

With the president's support, Congress is expected to pass youth-apprenticeship legislation sometime this year or next.

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of its work force. It offers training through its educational network, which makes use of distance learning. BellSouth, in conjunction with the Communications Workers of America labor union, has devised training programs with the help of labor and management.

"We think training and education, both on and off the job, is a real mainstay in our strategic position to be world-class," says William Shaffer, segment manager for BellSouth's training technologies.

In addition to the Communications Workers, others among organized labor, too, are keenly aware of the value of training. "Training in the construction industry—which is all done through apprenticeships—is probably one of the most important things we do," says Robert A. George, president of the Building and Construction Trades Department of the AFL-CIO. In his view, "the collective bargaining system represents the best way to negotiate training requirements."

The AFL-CIO believes that joint labor-management action on work-related training is the best road to a high-skill, high-performance workplace where employees are empowered to participate in decision making.

The federal government also has a vast array of training programs. It currently spends over \$16 billion a year on about 125 different employment training programs. (For details, see Page 25.) President Clinton has said the administration will assess the effectiveness of these programs to determine if they need to be better coordinated and streamlined.

The U.S. Chamber believes the delivery of federal job-training and welfare services should be coordinated into one-stop "skill centers" at the local level, says Joseph of the Center for Workforce Preparation and Quality Education.

In addition to streamlining current federal training programs, the administration has other ideas about improving the effectiveness of nationwide efforts. During his confirmation hearings, Labor Secretary Reich set four workplace goals:

- Providing a path to good jobs for the 75 percent of the nation's young people who do not complete four years of college and whose real wages have been declining.

- Helping workers who have been permanently displaced to get new jobs that pay at least as well.

- Fostering business organizations that create career ladders toward high-wage jobs, even for those individuals without university degrees.

- Encouraging the creation of good jobs that are good not only because they pay well but also because they provide a good work environment.

Displaced workers also will be high on

the list for retraining efforts. According to one estimate, approximately 2 million displaced workers lose their jobs each year because of shifts in technology, trade, and conditions of competition.

For those who will enter tomorrow's work force, the administration is expected to establish a nationwide youth apprenticeship program. When he was governor of Arkansas, Bill Clinton set up a state youth-apprenticeship program. A number of other states, including Oregon, Pennsylvania, and Maine, also have apprenticeship programs. (For details on Germany's apprenticeship program, see Page 30.)

Although a U.S. youth apprenticeship



Pat Choate: *Incentives for firms to encourage productivity would promote flexibility in training.*

system is still in the early stages of development, the traditional apprenticeship programs administered by labor unions have existed since the 1800s. Most of these apprenticeship training programs—mainly in the building trades—have been negotiated between employers and unions in collective-bargaining agreements. The main purpose has been to train workers in the various skills required by the building trades.

Besides establishing a national apprenticeship system and initiating other training reforms, the administration may push for change in the way business and labor, as well as the federal government, spend their training funds. Labor Secretary Reich, for example, told the Senate Labor Committee that while U.S. firms spend an

impressive \$30 billion a year training their workers, "the problem is that \$20 billion of that \$30 billion goes to workers who already have university degrees, not to those who need it most. So we have to figure out how to concentrate those resources, both public and private, on the workers who need that continuous training and upgrading."

Among the key policy questions to be answered: How will federal training and retraining efforts be financed? In the past, Clinton suggested requiring businesses with more than 50 employees to spend a minimum of 1.5 percent of payroll on continuing education and training for all workers.

But in recent months, the president appears to have backed away from that idea in the face of opposition that includes small businesses concerned about the impact of yet another cost mandate from the federal government. Instead of a training tax, the Chamber proposes a tax incentive to encourage business to upgrade its workers' skills. The Chamber's proposed "human-capital initiative" would provide business with a tax credit similar to the tax credit recommended for businesses that invest in facilities and equipment.

"The country needs a productivity set of incentives—an investment credit—that leaves enormous flexibility and choice to private firms on the type of training that is offered," says Pat Choate, a consultant and author of *The High-Flex Society*, a book that identifies problems facing industrial America and suggests a program of feasible solutions.

Choate says leaders of specific job-providing industries, such as motor vehicles, electronics, and textiles, together should decide

a direction for the industry. "It is important that all the stakeholders know their role and their reciprocal commitments and responsibilities," he says. Such collaboration would initiate long-term cooperative relationships.

President Clinton has said, "We must promote lifetime learning for every American, investing in our people at every stage." This renewed emphasis on education and training as a key to economic growth represents an important opportunity for business, labor, and government to work together to provide the skills necessary to enable U.S. companies to remain top competitors worldwide.



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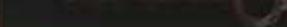
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MARKETING

A Country Twist At Every Turn

By Susan Holly

By day they are computer programmers, government workers, teachers. By night they are cowboys and cowgirls, dressed in their \$300 boots, \$150 hats, \$100 painted-desert shirts, and good old standby jeans—perhaps cut a little looser to accommodate aging baby boomers.

They hit the dance floor two-steppin' to Garth Brooks and Reba McEntire at any one of hundreds of country dance bars that have popped up in the past couple of years. And this isn't just in Amarillo or Nashville. This is in Santa Monica, New York, Chicago, Buffalo, Orlando, and Washington, D.C.

Many businesses across America are profiting from a newfound passion for country music, country dancing, and the whole ephemeral, idyllic notion of country living. Garth Brooks is outselling rock superstar Michael Jackson. Discos are being converted into country bars. Shoe stores have moved cowboy boots to prime position in their display cases. Nouvelle cuisine is giving way to country cooking. "Country happens to be where we're living today," says Bill Boyd of the Academy of Country Music, a Los Angeles-based organization that promotes country music worldwide.

At the Riverside Inn, long an authentic cowboy bar in Seattle, business is up about 40 percent just in the past year. On a typical Friday night, 700 customers crowd in to do the Texas Two-Step or the Achy-Breaky, a dance popularized by country-music star Billy Ray Cyrus.

Moreover, these new customers are not the rural patrons you might expect in a country bar, says Blake Dowen, the marketing director and 23-year-old son of owner Steve Dowen. They're yuppies you would expect to find at TGI Friday's. Although the club still has about a 10 percent core of real cowboys among its customers, the rest are "wannabe" wranglers from Seattle's swanky suburbs.

Theories abound to explain the current country craze. The popular wisdom is that

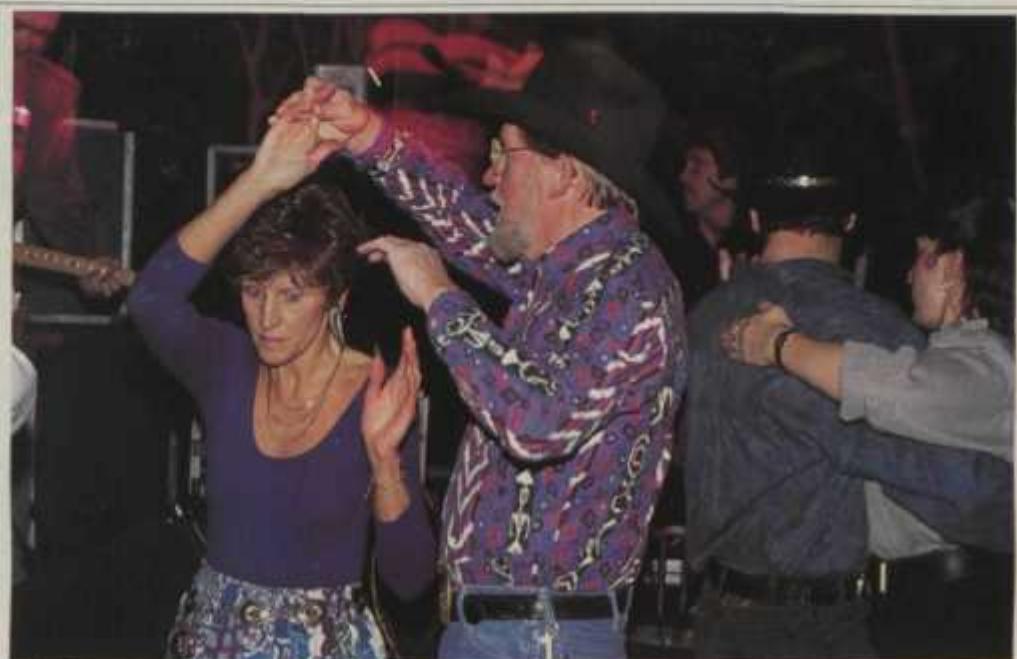


PHOTO: JEFFREY PETERSON

Country-music customers crowd the 1,700-square-foot dance floor seven nights a week at Blackie's restaurant and nightclub in Springfield, Va., near Washington.

Americans are turning back to hearth and home for comfort in somber economic times. "Country started as a place," says Danita Allen, editor of *Country America*, a monthly magazine that covers the country scene's music and lifestyles. "There is a national historical consciousness that country is a good place. It is wrapped up with a whole lot of values—being neighborly, friendly, a hard-work ethic."

Country music speaks directly to those values, says Ed Benson, executive director of the Country Music Association, an organization in Nashville, Tenn., that includes country musicians, marketers, and broadcasters. The music "reflects the stuff of the basic human condition," Benson says.

Although country music has repackaged itself—presenting young, good-looking artists in polished performances—it has not forgotten its heritage of simple melodies and words that tell a story. Many find the music comforting compared with the anger and frustration of rap and the primitive screams of heavy metal.

As rap music has worked its way into the mainstream, the mainstream has switched channels. Baby boomers have

In music, clothes, cuisine, even lifestyle, "country" is hot and spreading its Western accent.

trouble relating to rap or today's heavy metal, music experts say, but country now sounds familiar to them. The new country artists take their cues as much from the folk rock artists of the 1970s—the Eagles, James Taylor, and Dan Fogelberg—as from traditional country-music singers like Merle Haggard and George Jones. "You don't have to sing through your nose and have a fiddle in your band" to be a country singer, says Boyd.

As the demographic power of the baby boom has taken hold of country music, it has translated into business opportunities for other boomers. Take Kathy Bressler, 42, better known by her company name, Cattle Kate, in Jackson Hole, Wyo. In 1981, with a \$300 loan, Bressler began designing and manufacturing authentic Western silk scarves. A few years later she expanded her business, designing a full range of clothing with the look and feel of the old West.

Sales have been growing steadily for the past three years, and Cattle Kate's annual revenues are now about \$500,000. Her clothing is sold in 500 stores in the U.S. and through 250,000 catalogs mailed out annually.

Bressler, born in Pasadena, Calif., says

MARKETING

"the frontier was always calling to me." She spent eight years living in an authentic ghost town along the Oregon Trail, where she was the town seamstress, sewing clothes in a back room at the Mercantile Saloon.

After moving to Jackson Hole, where she married and had a baby, Bressler started her business, doing all the work in her home. She now employs a network of 15 home seamstresses to sew the clothes she designs.

Cattle Kate's apparel includes dresses for \$150 to \$300, men's shirts with button-on collars for \$135, vests for \$100 to \$120, petticoats and pantaloons for \$100, men's frock coats for \$329, and riding outfits for \$275 to \$395. The designs are all authentic Western styles—with fitted bodices, full skirts, hand-made laces—and the materials are all natural fibers.

In the beginning, Bressler's customers were working ranchers. "The roots of my design are with Western cowboys rather than Western glitz," she says. Today, a number of her customers live in big Eastern cities. "They are people with visions of country living. They want to wear something that can take them back to the West," she says.

Many of her designs undoubtedly show up on the dance floor in country bars, says Bressler, herself a country dancer. The boom in country music and dancing has certainly helped sales, she says. "That's part of what my clothing is about. The skirts are cut full; there's a lot of swishing."

And while Cattle Kate designs are sashaying about in dance halls, another small business may be providing the music.

Last summer, having given up an executive position with RCA in Los Angeles, Wynn Jackson, a self-described "closet country-music fan," headed for Nashville to look for work. He found that all the record companies there were intrigued by the country dance club scene, but none had yet broken into that market. So Jackson spent six weeks compiling a list of what he calls "deejay-driven dance floors"—those without live music—and approached the record companies. The dance clubs would pay an annual membership fee, and he would supply them with two shipments a month from the record companies. In return, he would let the record companies know how well their new releases were being accepted.

By August, Jackson had launched Country Club Enterprises Inc., and he had 35 clubs on his membership roster. Now he has 300 and is starting to see a profit. All but one or two of the 15 major labels in Nashville participate. The popularity of country music is here to stay, says Jackson: "Country music is a reforming of the tribe. It's America's music."

As at many of the dance halls like the Riverside in Seattle, the customers arrive early in the evening to learn the dances. This has spawned a new small-business opportunity for dance instructors, like Sandy and Dean Garrish in suburban Baltimore. The couple took up country dancing as a social activity about four years ago, went on to place in some national dance competitions, and is now ranked among the top country-and-Western dancers in the U.S.

The Garrishes recently gave up their day jobs—Dean was in construction, and Sandy worked as an administrative assistant—to form their own company, Branded Country, and teach country dancing full time. Every night of the week, they cart a few thousand dollars' worth of audio equipment and dozens of country-music compact disks to a different dance hall, where they teach from 100 to 350 devotees how to do the country cha-cha, the tush-push, or the barn dance.

They are part of a rapidly growing cadre of country-dancing instructors, numbering at least 3,000, according to *Country Dance Lines*, a monthly publication for aficionados. Just one year ago the list numbered 2,000.

Western-apparel manufacturers, who once served a small niche of the clothing market, now are seeing their products sell to a mainstream audience.

Long-established Texas boot maker Rios of Mercedes has experienced 20 percent sales growth in each of the past four years. Rios' growth has come from outside of its core market in the Southwest. "We're selling into Boston, New York, Los Angeles, Tokyo, and Paris," says owner Trainor Evans. Rios, which produces top-of-the-line boots that start at about \$300 a pair, and its sister company, Anderson Bean Boots, which makes a slightly less expensive line, together sell 30,000 pairs a year.

Companies like Rios of Mercedes have seen growth spurts before, most notably in the early 1980s. That's when the film "Urban Cowboy," with its glorification of the Texas cowboy culture, inspired city slickers to squeeze into tight jeans, don boots and a hat, and go riding on mechanical bulls like the one in the bar that was featured in the movie.

But Evans says that "the 'Urban Cowboy' phenomenon wasn't like this. That was explosive and unmanageable growth, and we paid the price" when country-theme businesses fountained. The growth this time, he says, has been more gradual, more stable—and perhaps will prove longer lasting.

"Urban Cowboy" was a fad, agrees Benson of the Country Music Association. "That little boom was more of a fashion trend. This growth is about the music, the artists, and the entertainment desires of the audience. Country music speaks to their emotions."



PHOTO: ERIC BOYD/MATCHET

Disc jockey Bob Paris gives voice to the country format at WTKW, a new FM station in Syracuse, N.Y.

There is no denying that "country" is hot. Figures from the Recording Industry Association of America, a Washington, D.C., trade association for record manufacturers, show that sales of country-music albums have more than doubled since 1988, from \$425 million to close to \$1 billion.

Country artists Garth Brooks and Billy Ray Cyrus dominated Billboard's Top 200 chart for much of last year, ahead of both rock and urban contemporary (rap) in number of weeks at the top. In the early '80s, Nashville was home to six major record labels. It now has 15. Last year, 2,203 radio stations reported having a full-time country-music format, an increase of 63 stations and 6 million listeners from the previous year.

Industry ratings indicate that country radio is now second only to adult contemporary as the preferred format in the nation's top 100 markets. A year ago, country stations had an 18 percent share, just behind adult contemporary's 20.9 percent share. Five years ago, country had a 12.9 percent share, behind both Top 40 and adult contemporary.

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MARKETING

country music is the emergence of Branson, Mo., as a country-music mecca in the Ozark Mountains. Country singers like Roy Clark, Box Car Willie, and Mel Tillis have settled in Branson, which has two dozen country-music theaters. Visitors to Branson have steadily increased over the past several years, now nearing 5 million annually. The Branson Chamber of Commerce reports a 260 percent increase in visitor center walk-ins from 1991 to 1992. Motels and restaurants are booming.

Branson also is home to a new cable television venture, the Americana Television Network, due to go on the air in April. A project of former Country Music Television executive Stan Hitchcock, Americana will join CMT and The Nashville Network (TNN), both based in Nashville, in bringing country music into millions of American homes.

As country-music artists grow in public recognition, so do sales of items bearing their images—T-shirts, posters, mugs, calendars. San Francisco-based Winterland Productions, which manufactures such products, shipped \$15 million worth of country merchandise in 1992, compared with \$1 million in 1991, says Paul Grushkin, national sales manager for Winterland's wholesale division.

The country trend also is sending sales figures for country-and-Western apparel manufacturers upward. The International



Clothing maker Kathy Bressler, standing, shows her Cattle Kate designs to customer Joanna Seitz of J. Seitz & Co., New Preston, Conn.



PHOTO: JAMES COOK

Western gear is plentiful and popular at the Western & English Sales Association's twice-yearly apparel and equipment show

Western Apparel and Equipment Show in January was the biggest ever, say organizers. There were 730 exhibitors—100 more than in 1992—and more than 7,000 retail buyers attended, or about 2,000 more than last year.

Country America, a monthly magazine published by the Meredith

Corp. and TNN, reached a circulation of 1 million in just three years. "Part of our tremendous success is because we combined country life and country music," says editor Danita Allen. Indeed, the magazine covers crafts and travel, runs personality profiles and reviews of coun-

try-music stars, and dishes up recipes from the country kitchen.

And in decidedly northern Syracuse, N.Y., WTKW is enjoying the popularity of "America's music." The independent FM radio station went on the air last November with a country-music format and was

BEST PLACE TO BUY HATS. NEW YORK, NY.

"pleasantly surprised at the almost overnight awareness and acceptance," says General Manager Mike Healy. The Syracuse area had been without an FM country station (it has one AM country station) since the last one switched to an easy-listening format four years ago. "We did no elaborate research," says Healy of the decision to go country. "It was a pretty obvious choice."

Though the station will not get the results of listener surveys until the end of March, Healy believes it is making inroads in the Syracuse market. "Listener awareness is there. We are getting a lot of crossover from the adult contemporary station. A lot of workplaces are playing us in the background, which means they are putting us on and keeping us on."

WTKW is one of the few new signals to go on the air with a country format, but existing stations are converting to country by the dozens, according to Lon Helton, Nashville bureau chief for the trade publication *Radio and Records*. Many of these stations are promoting a "hot country" format, focusing on the rising young stars and catering to younger listeners. These stations' strongest growth is in the 25-to-34 age group, and Helton forecasts that those listeners will make country radio a lifelong habit.

The unique aspect of country music, everyone in the business agrees, is its

For More Information

The Country Music Association represents 7,100 professionals—singers, songwriters, broadcasters, merchandisers—in promoting country music and developing domestic and international markets. The organization, which has helped make companies aware of the demographics of the country audience, can be contacted at One Music Circle South, Nashville, Tenn. 37203; (615) 244-2840.

The Western & English Manufacturer's Association, at 451 E. 58th Ave., No. 4750, Denver, Colo. 80216, (303) 295-2001, promotes country-and-Western fashions for its members.

The Western & English Sales Association, a separate organization, also in Denver, (303) 295-1040, sponsors the twice-yearly International Western Apparel and Equipment Show for buyers and sellers.

appeal to all ages. In suburban Washington, D.C., customers from 21 to 70 years of age crowd onto the dance floor at Blackie's of Springfield. The popular Northern Virginia nightspot opened in 1988 with a restaurant, featuring prime rib, and an adjacent Top 40 nightclub.

Blackie's tried a one-time "country

night" about a year ago. "The place was packed, and it has stayed packed ever since," says Gary Namm, retail marketing director for owner Auger Enterprises. One month after its experimental country night, Blackie's started a country music and dance program seven nights a week. It remodeled to accommodate a 1,700-square-foot dance floor and a stage for country bands.

"We increased the number of people that come through our doors on a weekly basis from 5,000 pre-country to 8,000 now," says Namm. "People who haven't danced for years are coming out."

This time around, many say, country music has found a permanent foothold. "I don't see any end to it," says Boyd of the Academy of Country Music. "No music can succeed without good writers, and country music is blessed with the best lyric and music writers in the business. I don't think it has peaked—it just keeps getting bigger."

The country-music boom is about more than a change in America's listening habits. People are internalizing the down-home message of country music and longing for a simpler, more bucolic time. For the thousands of new cowboys out there, this is about life.

 To order reprints of this article, see Page 80.

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The Quality Leaders

By Michael Barrier

Small-business owners are the tightrope walkers of the American economy. Usually, they start onto the tightrope bearing terrific burdens; then they may slip and almost lose their balance; a gust of wind or a spot of grease may threaten to bring them down; sometimes they get overconfident and risk a nasty fall; and often, they must avoid the big banana peel that a clumsy government or a determined competitor has dropped in their path.

But, time and again, the good ones stay on the tightrope, and their footing is all the firmer for the dangers they've survived. For them, the exhilaration of life on the high wire more than makes up for the hazards.

That is the unmistakable message from three years of the Blue Chip Enterprise Initiative, sponsored by Connecticut Mutual Life Insurance Co., the U.S. Chamber of Commerce, and *Nation's Business*. Connecticut Mutual originated the program in 1990 as a way to help small businesses learn from one another's experiences. Every year, many hundreds of small businesses across the country submit applications describing the challenges



ILLUSTRATION: MICHAEL NIGRO

These are the Blue Chip Enterprise companies for 1993. The company chosen in each state for the national judging is listed first. The nature of the business is indicated when it is not evident from the company's name.

ALABAMA

Paul Griffin and Associates (office furnishings), and WDC Systems (computer systems for retailers), both of Birmingham; Jim Myers Drug (pharmacies), Tuscaloosa; East-West Transportation, Decatur.

ALASKA

Stephan's Tool Rental & Sales, Anchorage; Alaska Electric Light and Power, Juneau.

ARIZONA

CartridgeCare (remanufactured laser-printer cartridges), Scottsdale; Active Noise and Vibration Technologies (engineering) and the Phoenix Suns basketball team, both of Phoenix; T.C. Eggington's Brunchery (restaurant), Mesa.

ARKANSAS

Alliance Rubber Co. (manufacturer of rubber bands), Hot Springs.

CALIFORNIA

ICU Medical (manufacturer of disposable medical devices), Irvine; Auspex Systems (manufacturer of network file servers), Santa Clara; Vortex Industries (repairing warehouse doors), Costa Mesa; PM Entertainment Group (motion picture and video production), North Hills; Action Copier Service, Van Nuys; New El Rey Sausage Co., Vernon; SalesTalk (in-store product demonstrations), Mountain View.

COLORADO

Altwest Fire and Sound (distributor of fire alarms, pagers, intercoms) and Wynkoop Brewing Co. (restaurant), both of Denver; Alpine Banks of Colorado, Glenwood Springs; Front Range Plating (metal finishing), Englewood.

CONNECTICUT

Photronics (manufacturer of photomasks for semiconductors), Brookfield; DAPCO Industries (manufacturer of computerized ultrasonic inspection equipment), Ridgefield; Tony March Buick/Saturn, Hartford; Pa-Ted Spring Co. (manufac-

turer of springs and stampings), Bristol.

DELAWARE

Artesian Water Co., Newark; Harry S. Wilson Inc. (insurance), Wilmington; Blue Coat Inn (restaurant), Dover; K-Video Productions, Claymont.

DISTRICT OF COLUMBIA

Lisboa Associates (communications consulting, conference planning), Corporate Visions (computer-generated visual presentations), and Hayward International (public relations, conference planning), all of Washington.

FLORIDA

Ekkwill Waterlife Resources (aquaculture), Gibsonton; Lawn Contractors, Bradenton; Sun Pharmaceuticals Ltd. (manufacturer of skin-care products), Pompano Beach; Payroll Transfers (employee leasing), Tampa.

GEORGIA

Veit Inc. (wholesaler), Tucker; Cheshire Pet Supply, Tucker; IKKA Technology (plastics), Villa Rica; SpectraLogic (product development), Atlanta.

Many of 1993's Blue Chip Enterprises have used the tools of quality management to survive—and succeed.



they faced, and how they surmounted them. It is those applications that tell the story of life on the high wire.

For all of the continuity from year to year, there is a new element in the survival-and-success stories of many of



1993's Blue Chip Enterprises: a stronger emphasis than ever before on the tools of quality management. For many small businesses, quality management—with its overriding emphasis on customer satisfaction—has always come naturally.

The great prophets of the quality movement, like W. Edwards Deming, J.M. Juran, and Philip B. Crosby, have in many cases put into words what the most successful small-business people have known instinctively.

This year, as in the past, many Blue Chip designees have pursued what were in fact quality-management programs, without that label. But now more and more small businesses are consciously adopting the quality movement's language and techniques.

In the third year of the program, 198 small businesses received the coveted Blue Chip Enterprise title. Of those designees, 52—one from each state, the District of Columbia, and Puerto Rico—were chosen to go on to the national judging. Four emerged from the final round as National Blue Chip Enterprises and were invited to receive their trophies at the U.S. Chamber's National Business

Action Rally in Washington, D.C., Feb. 23.

A full report on those four national designees—the challenges they faced, and how they overcame them—will appear in next month's *Nation's Business*.

As in the first two years of the program, all 198 companies will be profiled in a widely distributed book, and the 52 top designees will be presented through segments on "First Business," the morning news show broadcast on the USA cable network and sponsored by the Chamber and Connecticut Mutual.

The TV segments will be gathered on videotapes and made available to small businesses nationwide, with the cooperation of state and local chambers.

As lessons from the Blue Chip Enterprise Initiative make small businesses aware of promising solutions to common problems, it's likely that a growing number of small firms will be drawn to formal quality programs. For many firms, such programs will be a way of doing even better what they're already doing. As one Blue Chip designee puts it, "Before we knew what quality management was, we practiced it."

HAWAII

T & T Electric, Hilo; Hidano Construction, Honolulu.

IDAHO

Idaho Chemical Industries (plastics manufacturer), Fisher's Office Products, and Andrus-Shane Ltd. (retail women's wear), all of Boise; Lloyd Lumber Co., Nampa.

ILLINOIS

Airmax (transportation management services), Des Plaines; Dash Electrical Merchandising Co., Elk Grove Village; MYCO (manufacturer of point-of-purchase displays), Rockford; ComputerLand, Downers Grove.

INDIANA

Old Hickory Furniture Co. (manufacturer), Shelbyville; Ritz Charles Inc. (banquet and conference facilities), Carmel; Ran-Paige Co. (manufacturer of fabricated metal products), Sellersburg; Brown Equipment Co. (distributor), Fort Wayne.

IOWA

Clean Duds (coin-operated laundries),

Des Moines; Mike Brooks Inc. (trucking), Knoxville; Health Care Expert Systems (software), West Des Moines; PM Systems Corp. (pavement construction), Hiawatha.

KANSAS

Interconnect Devices (manufacturer of equipment for testing circuit boards), Kansas City; Professional Printing of Kansas, Emporia; Western Kansas Xpress (transportation), Wichita; The New Theatre Co. (dinner theater), Overland Park.

KENTUCKY

Discount Office Interiors, Louisville; Danesh Enterprises (restaurant) and Major Distributing Co. (appliances), both of Paducah; Universal Waste Co. (environmental services), Mayfield.

LOUISIANA

Michaul's Live Cajun Music Restaurant, New Orleans; Dixie Glass Co., Opelousas; Guico Machine Works, Marrero; Spectrum Unlimited (medical journals), St. Rose.

MAINE

Cormier Equipment Corp. (rental and sales), Oakland; Wright Express Corp. (commercial credit cards), South Portland; Woodworth's Printing Emporium, and Artist and Craftsman Supply, both of Portland.

MARYLAND

Wye River Inc. (manufacturer of food products), Queenstown; LaCrista Inc. (manufacturer of skin-care products), Davidsonville; Blazie Engineering (manufacturer of products for the blind), Forest Hill; Absolute-Care Ambulance Service, Baltimore.

MASSACHUSETTS

The Softbridge Group (software), Cambridge; Steve Connolly Seafood Co. and Zoom Telephonics (modem manufacturer), both of Boston; Boston Development Associates Construction Co., Westwood.

MICHIGAN

Great American Grubbslingers, Bloomfield Hills; Grand Rapids Spring & Wire Products, Grand Rapids; Eagle Alloy

ENTERPRISE

(steel castings), Muskegon; Grand Aire Express (charter airline), Monroe.

MINNESOTA

Comprehensive Rehabilitation Center (therapy), Edina; C.J. Olson Market Research, Minneapolis; Digi International (data communications hardware and software), Eden Prairie; Landscape Structures (playground equipment), Delano.

MISSISSIPPI

Shelby Die Casting Co., Shelby; Sound Advice (VCR express repair), Gulfport; Cleveland's Car Repair, Columbus; Management Dynamics Ltd. (personnel agency), Jackson.

MISSOURI

American Delivery Service, Advanced Nursing Services, and L.G. Zambrana Consultants (civil engineering), all of St. Louis; Heifner Communications (cable-TV program broker), Columbia.

MONTANA

CVR/Montana Furniture Galleries (manufacturer and retailer) and Bridger Foundry and Gallery (bronze sculptures), both of Bozeman.

NEBRASKA

Design Basics (home plans), Omaha; O'Brien & Co. (manufacturer of meat snacks), Bellevue; Certified Transmission, Omaha; Preferred Physicians Insurance Co., Omaha.

NEVADA

Port of Subs (sandwich shops) and Dennis Banks Construction Co., both of Reno; Water Safety Corp. of America (manufacturer of water purification systems), Sparks; Somers Convention Furniture Rental, Las Vegas.

NEW HAMPSHIRE

Computer Service Supply Corp., Londonderry; Paragon Publishing Systems (software development), Bedford; La Meridiana Restaurant, Wilmot; Bretton Woods Ski Area, Twin Mountain.

NEW JERSEY

Camelot Consulting Group, Fairfield; American Lease Exchange (computer leasing), Cherry Hill; A-1 International Courier, Union; Country Day Schools, Somerville.

NEW MEXICO

Lite Cookies Ltd. (manufacturer), Deming; Pimentel & Sons Guitarmakers, Smith Engineering Co., and Billings and Associates (environmental consulting), all of Albuquerque.

NEW YORK

Frisby Airborne Hydraulics (manufacturer of hydraulic subsystems and assemblies), Freeport; D/C Mechanical Corp. (heating and air conditioning contractor) and Rice Aircraft (distributor of aircraft parts), both of Hauppauge; Optimization Technology (engineering and software design), Rush; Three Village Inn (restau-



rant and motel), Stony Brook; E.G. Bowman Co. (insurance), New York City.

NORTH CAROLINA

GBA Systems (computer consulting), Colfax; 5G's Manufacturing (clothing), Pembroke; Tyler II Construction, Charlotte; LabStaffers (temporary personnel for clinical laboratories), Greensboro.

NORTH DAKOTA

F.F. Fisher Leasing Corp., Fargo; Leingang Siding and Window, Mandan.

OHIO

J.B. Dollar Stretcher Magazine (direct-mail advertising), Richfield; Cleveland Track Material (manufacturer of railway equipment), Cleveland; Sovereign Circuits (manufacturer of multilayer circuit boards), North Jackson; Dimco-Gray Co. (plastics manufacturer), Centerville.

OKLAHOMA

Handmade Rainbows and Halos by Amelia (hair accessories), Lamar; Ward Petroleum Corp. (oil and gas production), Enid; Eateries Inc. (restaurants), Oklahoma City; Gen-Star of Oklahoma (rebuilder of starters and alternators), Durant.

OREGON

Marion's Carpet, Rentrak Corp. (videocassette distributor), and Consolidated Business Machines, all of Portland; Central Homes (manufactured housing), Woodburn.

PENNSYLVANIA

Girton Manufacturing Co. (washing equipment), Millville; Labels By Pulizzi (printed labels), and Neece Paper Co. (distributor), both of Williamsport; Arrow Terminal Co. (materials handling), Industry.

PUERTO RICO

Western Steak & Pizza & Mexican Food, Mayaguez; Marmoles Vasseo (manufacturer of marble tiles and tables), Ponce; Mirabal & Associates (public relations, advertising), Mayaguez; Southwestern Farmers Inc.-Fruti Natural (fruit juices), Lajas.

RHODE ISLAND

Mearthane Products Corp. (manufacturer of polyurethane components and assemblies) and Blazing Graphics, both of Cranston; Federal Investment Co. (home building), East Providence; Tanury Industries (metal finishing), Lincoln.

SOUTH CAROLINA

U.S. Personnel, Columbia; Professional Rehabilitation (therapy), Easley; Precision Southeast (custom injection molding), Myrtle Beach; The Bank of South Carolina, Charleston.

SOUTH DAKOTA

RPM & Associates (rebuilt equipment), Rapid City; Dakota Granite Co. (quarry), Milbank; Bid-Well Corp. (manufacturer of paving equipment), Canton.

TENNESSEE

West Rents NationalLease (truck and trailer leasing), Nashville; Hypertech (manufacturer of computerized engine controls), Omega Travel, and R.L. Campbell Contracting Co., Memphis.

TEXAS

Triad Protective Services (security guards), Carrollton; Houston Creative Connections (technical personnel placement) and Institutional Real Estate Services, both of Houston; C-Power Products (manufacturer of power-related products), Rockwall; American Glove & Safety (retailer), Victoria; Brice Foods (yogurt shops), Dallas; Westway Ford, Irving; Minco Technology Labs (hybrid microcircuits and semiconductors), Austin.

UTAH

JoLene Co. (clothing manufacturer), Provo; Sahara Inc. (construction), Bountiful; Le Bus (bus transportation), Salt Lake City; Quantronix (manufacturer of cubing and weighing systems for air cargo), Farmington.

VERMONT

Qualitad (manufacturer of plastic packaging), Rutland; LineSync Architecture and Planning, Wilmington; Burlington Square Opticians, Burlington; Creative Carpentry (wooden lawn furniture), Ferrisburgh.

VIRGINIA

United Power Corp. (manufacturer of computer power conditioning equipment), Eskimo Pie Corp., and Young Cos. (transportation and warehousing), all of Richmond; Environmental Testing Services, Norfolk.

WASHINGTON

Studio 904 (hair design), Innovision (training), and Seattle Massage School, all of Seattle; Swift Transcription (medical transcribing), Spokane.

WEST VIRGINIA

Petroleum Development Corp. (oil and gas wells), Bridgeport.

WISCONSIN

Valley School Supply (distributor), Appleton; Racine Travel Service and Travel Institute, Racine; George Watts and Son (retail china, silver, crystal) and Bagel Boy Bakery and Deli Co., both of Milwaukee.

WYOMING

Kennon Protective Coverings (manufacturer of aircraft sun shields), Sheridan.

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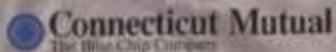
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Nation'sBusiness
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INSURANCE

Key People, Key Protection

By John S. DeMott



PHOTO: SCHLESINGER

Colleagues Tracey Thompson, Tim Drenning, and Buck Lightner of Altoona's Thompson Machine: When the founder died, insurance helped save the company.

When Walt Thompson died of a rare blood disease in 1990, the Thompson Machine company could have fallen into disarray, rudderless without its founder.

Instead, the story has a happier ending. Thompson had the foresight to buy about \$750,000 worth of insurance that not only provided for his widow, Agnes, but also assured the survival of Thompson Machine, an Altoona, Pa., firm that makes specialized metal parts and has sales of about \$1 million a year.

This so-called "key person" insurance, which had been known as "key man" before women started moving into upper managerial ranks, allowed Thompson Machine to award stock in itself to two key people, Buck Lightner and Tim Drenning, who became 49 percent owners of the company.

The proceeds from the insurance also enabled the company to raise the two executives' salaries to a level that could persuade them not to jump to another employer.

With their talent and experience, plus the savvy of Thompson's daughter, Tracey, 21, as both office manager and secretary-treasurer, the company has begun thinking about expanding into new markets.

What key-person insurance does is "indemnify the business in the event an important person dies," says Eric Hall of Grange Insurance, in Columbus, Ohio. And it's what Tom Sullivan, senior counsel to the advanced sales force of Connecticut Mutual Life Insurance, calls "the simplest of business sales because it's so analogous to what we call income replacement for a family."

Ellen Begleiter, head of estate, business, and financial planning at The Guardian, a major insurer of small businesses, in New York City, says, "It's insurance that's necessary" for small firms. "It can mean the difference between survival and bankruptcy."

Yet for all its ability to deliver money when and where it's needed, key-person insurance is not carried by an estimated 75 percent of small businesses. One possible reason is that many business owners don't know about such coverage. Another possible reason is price. Some owners, forced by law to carry several other types of insurance, see key-person coverage as a frill.

Still another reason, says agent Allan Hancock, who had sold the insurance to Thompson Machine, is that businesses resist buying key-person insurance for the same reason that many people—

Here's a type of life-insurance policy that could keep your business going.

business owners or not—neglect to buy life insurance: It means coming to grips with one's mortality, "and people don't like to do that."

Key-person insurance actually is more of a way of selling insurance than a distinct type of insurance. No such policy has "key person" stamped on its cover. Instead, forms of ordinary whole and term life are mixed to produce a package that's sold by direct writers and independent agents to businesses and business executives as key-person insurance.

Says Steve Shaw, this year's president of the National Association of Life Underwriters: "Some people get all caught up in labeling. In reality, all you're doing is buying money for future delivery."

In its simplest form, key-person coverage pays cash to the company, which is usually the policy beneficiary, when a key person dies or becomes disabled. The person covered could be the founder, as in the case of Walt Thompson, or it could be anyone critical to the business—a patent-generating engineer, a partner who brings business to a law firm, a movie star, even an administrative assistant who happens to know everything about how an office works.

Insurance agent Hancock, for example, carries a \$20,000 policy on Jill Hannah, his personal assistant of 17 years. "She knows my clients," he says. "She can deal with 90 percent of the things that happen here."

Key-person insurance can be structured in numerous ways, sometimes under the term of "business continuation planning," to fund deferred-compensation arrangements or buyout arrangements between partners, for example. Bayshore Metals of San Francisco, with annual sales of about \$2 million, has two \$500,000 policies on its partners, Ron Marchand and Chuck Warner, for that purpose, although Marchand is in the process of buying out Warner.

Another purpose is to pay off company debt. This is one of the least complex forms of key-person insurance—a policy much like mortgage insurance—that pays a loan from an important creditor if the boss dies. Lenders like to see such protection in place because it's good collateral and, says Shaw, "it shows good planning."

Face values of key-person insurance can begin at \$50,000 and go as high as \$15

million—or even higher. Reebok International, for example, paid a \$513,601 premium in 1991 on a \$50 million life insurance policy for Paul Fireman, chairman and CEO, and his wife, Phyllis.

Premiums, like those for any insurance, can vary considerably. One form of a \$1 million key-person policy for a 44-year-old executive in good health can start at \$2,800 a year but rise to \$16,500 annually after 20 years. Another policy starts at a stiff \$16,180 and runs for 10 years, but rapidly mounting cash values effectively wipe out costs to the policyholder and net a profit of \$6,407.

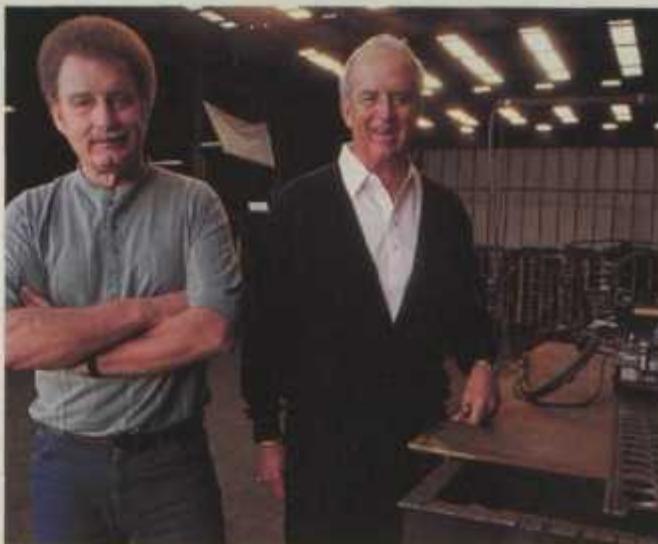
Key-person insurance may be more popular now than ever, although there's no way of telling for sure; groups like the Life Insurance Marketing and Research Association (LIMRA) or the National Association of Life Underwriters don't break out sales totals for key-person insurance, as is done for whole life or term life, for example. In 1989, however, LIMRA did do a study of corporate-owned life insurance, which key-person insurance frequently is, and found that a quarter of small businesses own it.

If anything discourages sales, it would be the alternative minimum tax (AMT), which might come into play on benefits received by corporations from key-person policies. Life insurance benefits are normally not taxable, except for those from policies held by corporations.

To Connecticut Mutual's Sullivan, the AMT presents no big problem; just buy a little more insurance, he advises, to cover what could be the AMT's maximum take of 15 percent.

One other possible problem may not be so easily solved, however. The Treasury Department dislikes—and may move to eliminate—the practice of businesses claiming a tax deduction for interest paid on loans against the cash value of key-person insurance.

Although interest on loans against the cash value of corporately owned life



Partners Ron Marchand and Chuck Warner of San Francisco's Bayshore Metals: Two \$500,000 policies just in case.

insurance (called COLI) is deductible under tax law, the Treasury Department sees it as being used by business mainly to avoid taxes—a loophole that should be closed, the department says—because interest on loans from most other sources

cannot be deducted. Most life insurance carriers underwrite key-person coverage. Others, primarily in property and casualty, also sell it. For independent agents who want to branch from property and casualty to life, key-person is a natural vehicle, and they might work hard for the best deals for new clients.

Bob Tedoldi, a life-insurance agent in Connecticut who writes over one-third of his business in key-person coverage, says: "If you've already insured the

buildings and the machines, it's a short leap to people who bring in the business for the machines."

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THE FERRARI

Lincoln Town Car came in first. ■ It wasn't a contest of speed. Or of cornering. It was a contest of desirability.

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L I N C O L N T O W N C A R

WHAT A LUXURY CAR SHOULD BE



Small-Business Computing

Accounting programs have been slow to add bells and whistles, but changes are now coming quickly.

By Ripley Hotch

ACCOUNTING

Financial Software

Though many small businesses are unhappy with their accounting programs, they also don't like the difficulties of change. And although the functions of double-entry accounting and bookkeeping are easy enough to transfer to the computer, the terminology still leaves most business people cold.

In a market such as that, it's hard to blame software publishers for appearing to be slow to add bells and whistles to their accounting programs, but changes are now coming quickly.

The value of an accounting program is that it can give you reports about the status of your business at any time. Those reports make up one of the most attractive parts of an automated accounting system.

Small businesses also are less fussy about where the business ends and personal finance begins. As a result, many run their businesses with a personal-finance program.

Although most businesses are still using DOS accounting programs and a few are using Macintosh, there is a movement toward Windows among small businesses.

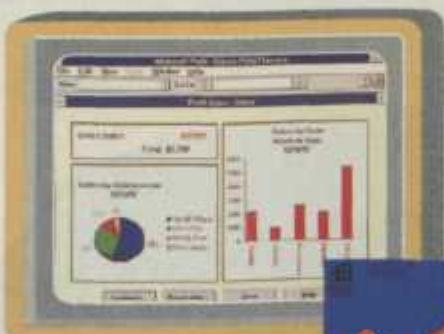
Link Resources, a New York marketing research company, estimates that as much as 30 percent of the PCs used in small offices and home offices have Windows. Peachtree Software, the best-selling double-entry accounting system for small businesses, now has a full-fledged Windows version. [See Small-Business Computing in the December 1992 issue of *Nation's Business*.] The use of Windows can only increase as, in effect, almost every new machine will be sold with Windows already loaded.

So it isn't surprising to see Microsoft, the publisher of Windows, get interested in publishing software in this category. Other Windows products also are starting to make their mark.

The advantages of Windows for the small business are just becoming apparent: You can fill out forms that really look like forms, you can keep several programs

running at once and move information between them, and you get at least some of the consistent operation from program to program that has always been a major strength of the Macintosh.

Two Heavyweights Join Forces



Microsoft Profit makes an effort to hide the accounting.

It is a strong indication of the importance of the small-business market that the leading publisher of accounting software, Great Plains, and the leading provider of operating systems, Microsoft, are cooperating on a new management and accounting program for small businesses, **Microsoft Profit**. The target user is the owner of a business of about 25 or fewer employees. Great Plains has written all the accounting sections of the program and provides the support. Microsoft handles marketing and has written the shell to operate with Windows 3.1.

Profit makes a valiant effort to hide the accounting. You don't have to know general ledger or debits and credits to run Profit or to use it effectively. It uses as many familiar office metaphors as it can so that you can be up and running as quickly as possible.

When you first load Profit, you are asked to choose the type of business you have, and then you customize the program to fit.

One of the attractive features of the program is its use of Microsoft's Wizards technology (imported from other Microsoft products). The Wizard will take you

through the necessary steps to set up your company's checking accounts, usual tax rates, current balances, customer lists and balances, vendor lists and balances, and all the other basics of a company. These take time, of course, but once done, they're done.

You don't have to set the company up completely at first, though it is advisable to do so. When you start working with Profit, it presents you with a file cabinet metaphor. You choose a "drawer," then make choices in that category. For example, one drawer is "Transactions." Opening that drawer leads the program to ask you whether the transaction is with a customer, vendor, bank, or employee.

If you choose customer, you can record sales invoices, quick sales, and so on. Then you are presented with an on-screen invoice that you can fill out. Or you can choose almost any item from the lists that you have set up either at the beginning or as you use the program.

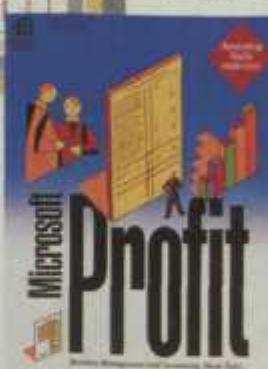
It totals, adds taxes, and then can print the invoice out on a form or plain paper. It records the invoice in the appropriate accounting categories, reminds you if the invoice is overdue, adjusts your inventory, and so on.

One of the most interesting drawers is "Profit Signs," a series of graphs created from the data you record as you go along. There are any number of ways these can be set up—profit by week, cash flow by month, and sales by salesperson, for example. You choose your most important company vital signs, and you can monitor them any time you wish.

There are plenty of detailed reports as well. These take some more doing to get set up, however.

Profit has plenty of room to grow. It may not be as easy to use as it first appears, and you might find the cartoon introductory screens annoying after a while, but right at the start it is a powerful management tool for the small-business person who wants to be on top of his or her business.

Microsoft's suggested retail price for Profit is \$199.95, and it will be available in



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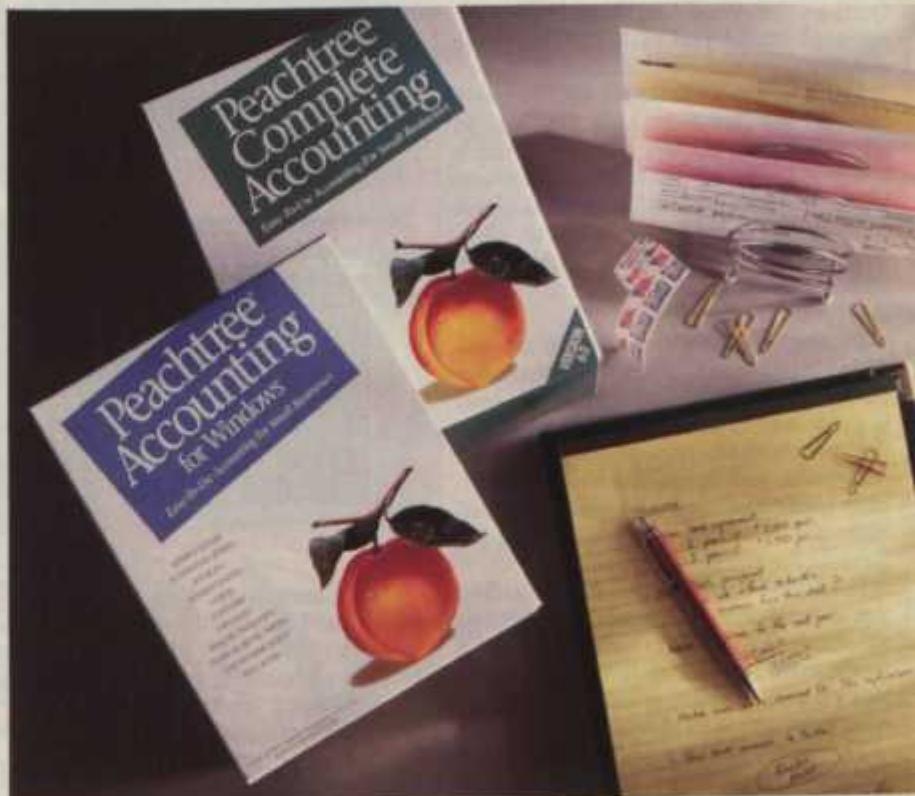
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ACCOUNTING

practically every retail outlet that sells computer software. If you haven't yet chosen an accounting program, you will do well to look into this one.

Intuit Spreads Out

Microsoft's target with Profit is clearly Intuit's **Quickbooks** and **Quicken**. Intuit has not been sitting still, but is moving its two hugely successful products toward each other. Quickbooks, now in DOS, will be out in a Windows version this year. Quicken for DOS, version 6, and Quicken for Windows, version 2, were released at the end of 1992. They have roughly the same capabilities.

Intuit makes an art form out of ease of use. At the lower end, if you are an all-cash business, Quicken is certainly going to be the easiest to get used to and work with daily. Its checkbook/check register metaphor insulates you as effectively as Profit does from double-entry accounting. The dreaded words "debit" and "credit" never appear.

In the Windows version, Intuit has added little pop-up yellow notes that offer guidance to what you are doing. It's easy to get to any function in the program, and the operation is both clear and consistent.

Reports look great and are automatically generated. And you can create and customize a number of them—saving the formats for automatic updating.

Both DOS and Windows versions allow you to categorize credit-card transactions automatically, if you have a Quicken credit card. And Intuit has always had a lock on ease of printing checks—which is where the company started.

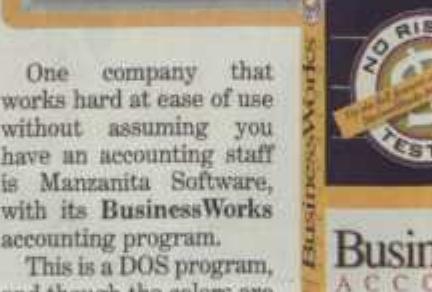
Now there is clearly a Windows strategy from Intuit, with a range of financial products that will flow from one to another. The company understands that there can be a continuum from personal to company finance, and it groups its products so that they can serve all of them.

It has added Quicken Companion, which estimates personal federal taxes and goes online to give stock prices (which makes Quicken comparable with Meca's *Managing Your Money*). It has QuickInvoice for printing professional invoices—a function that is central to Quickbooks. It has an upgraded version of its payroll software. It puts Quicken 2.0 for Windows, QuickInvoice, and several other products together in a "business pack," which it will be offering through retailers at a very aggressive price well under \$100. Putting these together gives Quicken users enough tools to manage a cash-based business, and clearly all of that will transfer to Quickbooks for Windows when it appears.

When you look at all that Intuit provides at the price, you cannot help but feel that its leading place in financial software is well deserved.

More Power To You

High-end accounting programs are still firmly in the DOS world, though there are real improvements in ease of use in most of the packages. Most of them operate on networks, and they assume a staff of bookkeepers.



One company that works hard at ease of use without assuming you have an accounting staff is Manzanita Software, with its **BusinessWorks** accounting program.

This is a DOS program, and though the colors are pleasant, it makes no attempt to be beautiful. Its menu system is a little unusual, but it's clear and simple to use. Manzanita, says its president, Corley Phillips, is trying to bring full-featured accounting to small and midsized companies that "aren't financial experts or computer wizards. We strive to provide the most up-to-date accounting software to fit the customer needs without the necessity of an in-house accounting expert."

That doesn't mean you can go entirely without accounting knowledge, but the program does try to guide you through the steps you need to follow. And it does keep you from making disastrous errors.

Invoicing, for example, is convenient because you can, on the same screen, record a cash sale or a full-blown invoice to be presented to the customer. The program is strong on reports, including a very good series of "flash reports" in various modules that summarize activity on customers, sales, employees, and so on. You can see where you stand quickly.

One of the problems with accounting programs is that you can't be sure how they'll feel to use without buying and using them. Manzanita has shown a considerable confidence in its product by providing a "test drive" package for \$19.95 that allows you to try out all of the features of the program.

Manzanita can be reached at 1-800-447-5700.

DOS Lives

Of course, we have to remember that most of the accounting world is still in DOS.

CashBiz, from M-USA, is a DOS program for cash-based businesses or for

BusinessWorks: Test drive the features before you buy the full program.



personal finance. An automated checkbook, it offers features similar to Quicken's at a price of under \$50.

It isn't difficult to use, but it isn't in the same category as Quicken for ease of use. And it certainly isn't going to give you management reports on the scale of Microsoft Profit. It was designed, says the company, to give you better reports than Quicken, but that's a quickly moving target, as Intuit has proved more than once, and the latest versions of Quicken do match the reporting capacities of CashBiz.

Jose Hurtado, who created DacEasy, the program that really forced down accounting-software prices, created **Pacioli 2000**, at the \$50 price level (and it's lower by mail order). That vaulted it into the best-seller category. It is a full-featured double-entry accounting program that pretty much requires accounting knowledge. It is not easy to use for the nonaccountant.

Managing Your Money, now in version 7, remains the DOS king of sophisticated personal financial management. Its suggested retail price has dropped to \$79.95, and it usually can be bought for around \$50. This impressive program will be moving to Windows this year.

Rethinking Public Education in America

When it comes to explaining the lack of improvement in academic achievement among American children, most people are all too eager to blame the nation's school system. Yet few can agree how best to reshape U.S. elementary and secondary schools to meet the educational challenges of the 1990s.

As a company with a major presence in this country and interest in its well-being, we share the concern about the state of U.S. education.

That's why Hitachi joined forces with the California Chamber of Commerce and other civic-minded organizations to sponsor the California Public Affairs Forums on educational reform. Aiming to develop a consensus on school reform, we invited several hundred educators, business executives, government officials, parents, and journalists from the San Francisco area to hear experts discuss their ideas on educational reform. Two days later in Los Angeles a similar audience heard another

prestigious panel address the same topic.

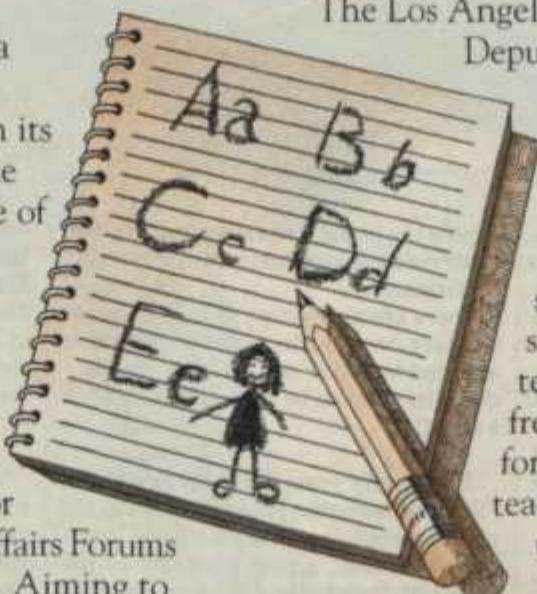
Each forum featured a leading proponent of educational reform as its keynote speaker. In San Francisco, it was William J. Bennett, formerly U.S. Secretary of Education and now a senior fellow at the Hudson Institute. The Los Angeles forum featured former

Deputy U.S. Secretary of Education David T. Kearns.

Among the proposed reforms: year-round school attendance; more specialized schools; standardized achievement tests and curricula; and freedom of school choice for both parents and teachers. The speakers also urged greater business involvement in public education.

It's our hope that these ideas will contribute to a growing consensus on educational reform in the U.S.

To obtain copies of the speakers' presentations and other information, write: Hitachi, P.O. Box 35146, Los Angeles, CA 90035.



HITACHI

CRIME PREVENTION

The Best Defense

With careful planning and screening, you can hire a security firm to safeguard your firm's assets.

By Janine S. Pouliot

There was a time when banks and other operations involving large sums of cash were the primary employers of private security guards. But the rapid growth of crime since the 1960s has prompted many other types of businesses to employ guards as a defense against armed holdups, shoplifting, and assaults on employees.

By 1981, the earliest year for which the federal Bureau of Labor Statistics has figures, there were about 300,000 private security guards on the job, and that number grew to roughly 500,000 by 1990. It is expected to exceed 750,000 by the year 2000, according to Robert McCrie, editor of the *Security Letter*, a bimonthly newsletter aimed at individuals in government, private industry, and the security business. McCrie is also an associate professor who teaches security management at John Jay College of Criminal Justice in New York City.

McCrie says that many factors contribute to the rising demand for security. High among them is the corporate concern about litigation over inadequate security. Expanding the use of security guards offers some measure of legal protection.

In addition, McCrie says, employees are becoming more fearful for their personal safety, and he cites walking through a company parking lot at night as an example. "There is a perception that public violence is increasing," says McCrie, and security personnel help people feel safer.

The sharp increase in the use of private security guards also reflects in part the extent to which smaller businesses are becoming customers for such services.

But finding the right security service can be a highly complex task. The small-business manager engaging an outside company to provide guard services must rely on the managers of that firm to



ILLUSTRATION: TRACI HARMON

impose the hiring standards, training, and supervision needed to ensure high-quality performance.

There are many steps small businesses can take to evaluate security companies and decide which one to hire. Here's a checklist that can be used in making such a selection:

1. Identify your security problem. "You need someone knowledgeable in the area in which you want security," says Timothy Walsh, a past president of the American Society for Industrial Security and founder of Harris & Walsh, a security consulting firm in New Rochelle, N.Y. If that someone isn't on your staff, a consultant can help. The independent consultant can identify areas of vulnerability in building access, theft, counterfeiting, or "anything that interferes with profit," Walsh notes.

Once your needs are defined, it will be easier to find the type of security service that meets them. For help in locating a consultant, call the American Society for Industrial Security at (703) 522-5800 or the International Association of Professional Security Consultants at (813) 596-6696.

2. Send a prebid questionnaire to firms in your geographical area. This preliminary screening should give you an overview of their operations and help you narrow your choices to two or three. Ask for a financial statement, the background of the management team, how long they've been in business, the

number of employees, and the type of clients the company now services.

When you query large national firms, remember that the critical factor is the quality of the local management. And while sales presentations by security firms can be helpful, don't limit your evaluation to them.

"One of the biggest mistakes small to midsized companies make in choosing a security firm is only dealing with the marketing people," says Bob Johnson, president and chairman of First Security Services Corp., a Northeastern regional concern headquartered in Boston. He says that business owners should also question the individuals directly responsible for delivering the security service.

3. Probe the security company's own hiring procedures. Ask the firms you consider finalists specific questions about their employee-selection process. For example, find out how the company screens job applicants for criminal records. Many security firms submit applicants' fingerprints to state police, but assessments of the prints are often delayed.

In New Jersey, "it takes anywhere from a month to three months to get a response," says Louis Dell'Ermo, president of Gateway Security, a firm in northern New Jersey. Some states actually restrict security-company access to official criminal records.

Consequently, it's essential for you to know that a security firm you are considering hiring does its own investigations of prospective employees, Dell'Ermo notes. At the very least, a good background check by the security firm should include interviews with former employers as well as neighborhood and personal references, and a look at motor-vehicle, military, financial, and school records.

Ira Lipman, president and founder of Guardsmark, a nationwide security firm headquartered in Memphis, Tenn., re-



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CRIME PREVENTION

quires that candidates take a polygraph test, unless it is prohibited by state law. Private security personnel are exempted from the federal restrictions against job applicants taking polygraph tests, as contained in the federal Employee Polygraph Protection Act of 1988.

Even when firms use the best evaluation techniques available, business operators ought to take an active part in the selection process. "You should eyeball the [security guard] candidate yourself," says consultant Walsh. "You wouldn't turn the keys to your home over to someone you never met and then go away for three days."

4. Examine training procedures.

For years, security officers were hired "bodies" placed in uniforms and on the job

many subsidize the educational expenses.

5. Research the security firm's supervision of its guards. Supervision is the key to obtaining quality service. Security officers should be required to fill out a daily checklist that is filed with the branch office and with the client, indicating any unusual incidents and any safety breaches, such as broken locks.

Security-service supervisors should make frequent surprise visits, particularly at night, to observe officers on the job. Security-company managers should meet regularly to review the performance of each guard.

To ensure compliance with the rules, Guardsmark, for example, offers guards increased compensation based on customer retention and satisfaction.

McCrie recommends that savvy business owners protect themselves by requesting copies of insurance certificates from the security firm. "The strength of the paper must be investigated," he says. Determine if the insurance carrier is licensed to write policies in the state. If you're dealing with a national security firm, learn whether the total amount of insurance covers many locations and therefore could be inadequate to protect your site.

Lipman advises asking for the security firm's workers' compensation insurance experience modification factor (EMF), calculated by the National Council on Compensation Insurance. The EMF reflects the incidence of on-the-job accidents and injuries and is based on the prior three years of workers' compensation claims, excepting the year just ended. An EMF lower than 1.00 is considered excellent, reflecting a strong safety record.

8. Draw up a written agreement.

Have the security firm put in writing any promises it has made. Make sure it names the field inspector, training manager, and anyone else responsible for furnishing services. In addition, ask about the levels of experience of those holding such positions.

Also obtain in writing a resume on each guard who will be assigned to your business and an outline of his or her duties. Make sure the types of training, compensation, and employee benefits are documented to ensure you get top-quality, career-oriented guards. "You can imagine the kind of worker you're going to get" if the security company does not offer health insurance or vacation, says Lipman.

Specify that copies of documents indicating compliance with state and local security industry regulations be included with the contract. One reason for this is to minimize your legal exposure should something go wrong.

"Your liability in a negligent selection and retention suit may be limited if you can prove you based your decision on reasonable standards," says Ray Chambers, executive director of the International Association of Professional Security Consultants and founder of the security firm Assets Protection Systems Associates, in Largo, Fla. "The contract is there forever. It shows you made an effort to get the best security service."

Finally, write out exactly which services you want performed. And if it's important to you, state that the guards should be fluent in English or another language.

With careful planning, screening, and documentation, hiring a security firm can be a valuable safeguard for your assets.



with no formal instruction, according to industry experts. But many are now called upon to work with high-technology equipment, such as electronic surveillance, and computerized inventory controls designed to deter shoplifting and employee theft. They need a higher level of education and training.

At a minimum, initial training should provide the basics of fire prevention, first aid, physical security, bomb threats, drug abuse, patrolling safely, and report writing.

While up to 10 percent of security guards nationwide carry firearms, Lipman maintains that arming guards is not necessary. "Today we have closed-circuit television, electronic fences, walkie-talkies, and emergency control buttons to summon help. Unless a guard will be in a life-threatening situation, you don't want him armed," says Lipman, because guards typically are not trained to use guns in volatile situations.

Before hiring a security firm, find out if it provides ongoing in-house training and sponsors attendance at professional seminars.

Many security companies now encourage guards to get degrees in legal-based, criminal, or other related programs, and

6. Request a client list. "References are the best thing in the world," says Michael Anesta, director of personnel for piano manufacturer Steinway & Sons, in Queens, N.Y. His advice is based on his own experience—three tries before he found a guard service that met his standards for providing security at the factory during off-hours. In the first two cases, Anesta recalls, "the initial supervision was very good, but then it began to deteriorate."

In reviewing the client list of a security firm, find out how many customers it has and see if any are in your line of business, which would indicate that the security company is experienced in your field. Then call each to get a report card on the firm. How long have they been a customer? Has there ever been a problem involving a guard? Is management responsive to their needs?

"Don't forget to talk to the customers no longer dealing with the firm," advises First Security's Johnson. Ask why they stopped.

7. Ask about the security firm's insurance and bonding policies. This is important because if an incident involving a guard does occur, the business owner can be held legally responsible in court. New York is the only state that requires all security firms to carry general liability insurance, says McCrie.



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Circle No. 33 on Reader Service Card

Renewing American Enterprise

By Albert G. Holzinger

The U.S. Chamber of Commerce has presented President Clinton and members of Congress with a comprehensive set of proposed legislative and regulatory solutions to America's short- and long-term economic and other structural problems.

The proposals call for action in 1993 and 1994 on 25 policy priorities in seven general areas.

The federal government needs to address these issues, the U.S. Chamber says, to enable American entrepreneurs and their employees to remain competitive in the tough global marketplace.

The recommendations constitute the National Business Agenda for 1993-94, which is titled *Renewing American Enterprise*. The agenda was formulated following a series of regional meetings attended by a broad cross section of the federation's members. This membership comprises 215,000 companies, 3,000 state and local chambers of commerce, 1,200 trade and professional associations, and 66 American Chambers of Commerce in 55 countries.

Problems addressed by the solution-oriented agenda include ever-widening federal budget deficits, continued high unemployment, unavailable or unaffordable health care, excessive regulation, and an education system that produces workers ill-equipped to meet the challenges of international competition.

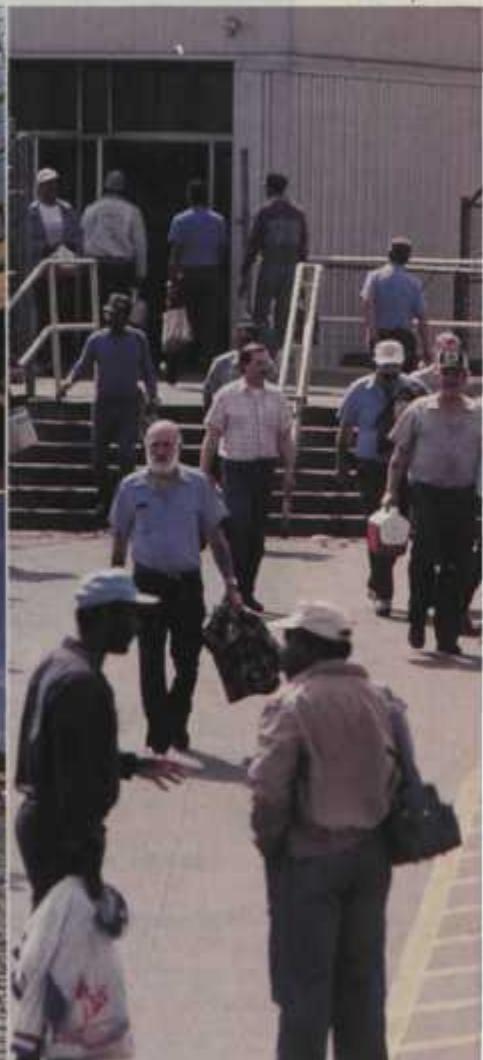
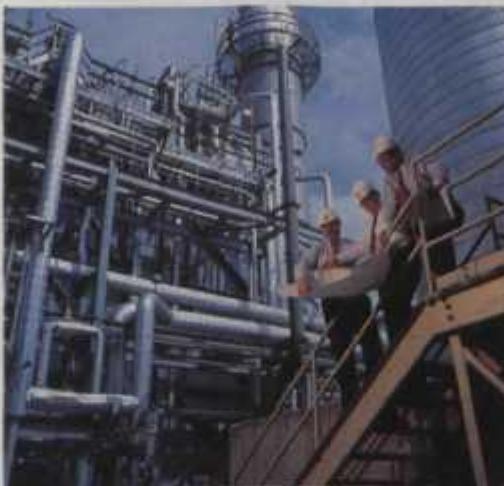
The agenda reaches out to some of business's traditional adversaries—notably organized labor, government bureaucrats, and environmentalists and other interest groups—in recognition that such cooperation exists in most of America's competitor nations.

The Chamber is calling on business people to become part of its newly reorganized Grassroots Action Information Network as a means of advancing the agenda. (For more information on the network, call 202-463-5604.)

Here is a summary report of the 1993-94 National Business Agenda:

Set the stage for strong, sustainable economic growth. The U.S. government now spends more than 24 percent of the income earned by all Americans, the largest percentage since World War II. Current federal regulations cost U.S. business and individual taxpayers more than \$400 billion a year, according to the

Public-policy changes recommended by the U.S. business community would enable America to remain competitive in the global marketplace.



TOP PHOTO: ERIC BROWN/HEARST—THE STOCK MARKET

BOTTOM PHOTO: CONNIE SAILOR—THE STOCK MARKET

PHOTO ABOVE: JIM PICKERELL—FOLIO, INC.

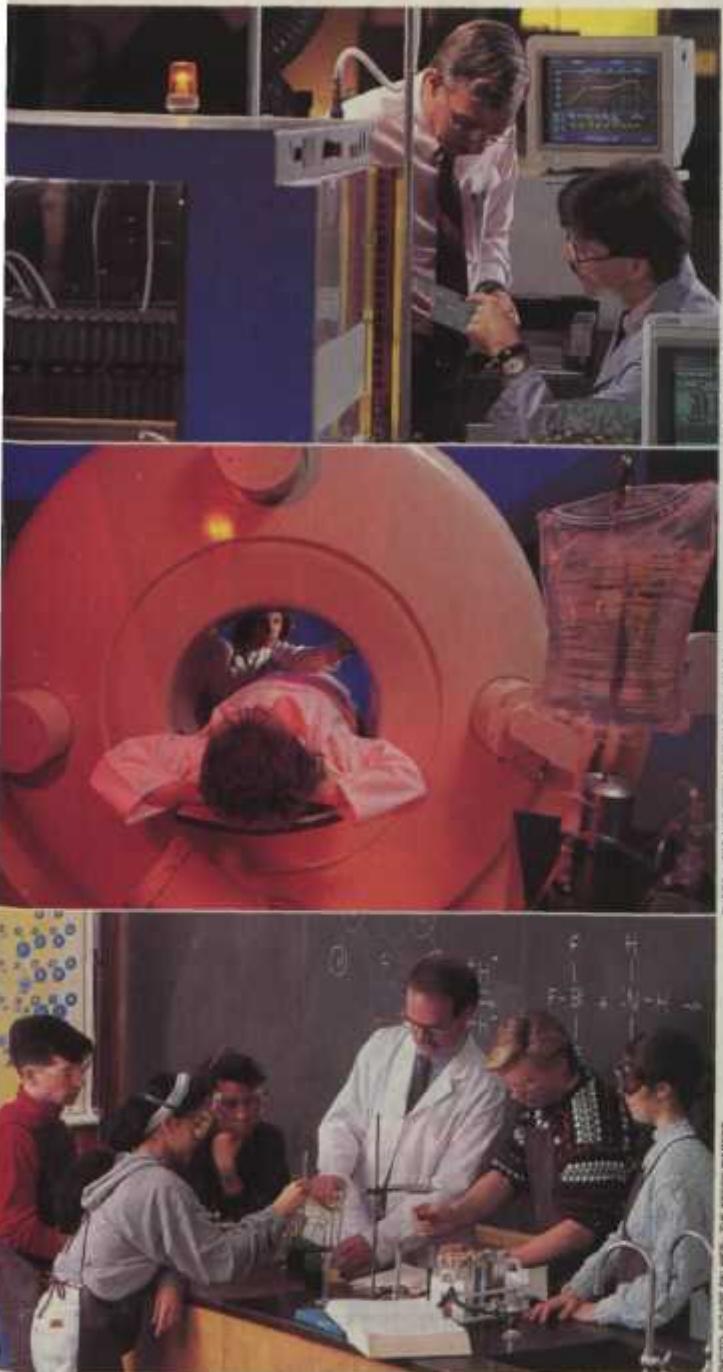
Journal of Regulation and Social Costs, published by the National Chamber Foundation, a Chamber research affiliate.

These and other burdens imposed by government on the economy have inhibited economic growth, discouraged investment, and damaged America's international competitiveness, says the U.S. Chamber. Thus, the federation's agenda includes legislation to reduce the long-term cost of capital; to provide the private sector with additional capital through such actions as reducing the Social Security payroll tax; and to change foreign-tax provisions to enhance U.S. competitiveness.

The agenda also calls for regulatory relief and institutional reforms to suppress future overzealous regulation.

Put America's fiscal house in order. Under current tax laws and spending programs, the budget deficit will be around \$400 billion a year into the next century, says the Congressional Budget Office, and the economy will grow at an average rate of only 2.5 percent a year. Under these assumptions, financing the federal debt will increasingly sap strength from the U.S. economy.

The business agenda calls on Congress to balance the federal budget and keep it balanced under a tax- or spending-limitation amendment to the Constitution. The agenda also calls for reforms to restrain federal spending while funding new investment, and it urges changes in the federal budget process, such as letting the president veto line items in spending bills.



The economic and other policy changes proposed in the 1993-94 National Business Agenda would result in additional jobs for American workers and opportunities for U.S. businesses in all industries. The U.S. Chamber is calling on business people to advance the agenda by becoming part of a newly reorganized Grassroots Action Information Network.

Establish a skilled, competitive work force. America's future competitiveness depends in large part on the ability of its work force to perform in an increasingly high-tech environment.

Study after study has shown that U.S. public schools lag behind those of its competitors in preparing children for the rigors of the workplace in such disciplines as mathematics, science, and foreign languages.

Moreover, America lags behind much of the rest of the industrialized world in retraining current workers in the use of increasingly sophisticated equipment.

The Chamber's agenda calls for improved education for children from before kindergarten through high school and enhanced and better-coordinated training and retraining for current workers. It also recommends improved cooperation between business and labor in restructuring the American workplace to make it more productive while opposing legislation that would increase workplace conflict, including a proposal to ban the hiring of permanent replacements for striking employees.

Give entrepreneurs and workers tools to compete. Building and maintaining a world-class national infrastructure, especially the telecommunications and transportation components, is vital to

achieving competitiveness as well as a high standard of living.

America seems to be paying insufficient attention to its infrastructure needs, according to the Chamber. For example, only 48 percent of U.S. interstate roads are rated in good or better condition by the U.S. General Accounting Office, and greater commitment is needed to establish an advanced national telecommunications network, whose cost is widely estimated at about \$300 billion over 10 years.

The business agenda calls on Congress to seek creative ways to fund vital infrastructure needs, and it calls on government to cooperate with the private sector in developing and disseminating new technologies.

Make the business environment more friendly to entrepreneurs. Excessive litigation, liability costs, and paperwork are sapping U.S. business resources, yet the socially beneficial outcomes intended are seldom realized, contends the U.S. Chamber.

In support of this contention, the Chamber cites many statistics, including this stunning one: U.S. plaintiffs filed more than 160,000 federal liability lawsuits from 1974 to 1990 while in Japan—with a population about half that of the United States—plaintiffs filed only 150.

The business agenda sets forth a long laundry list of remedial congressional actions, including reforms of the product-liability and civil-justice systems, reductions in paperwork required by government, overhaul of the Occupational Safety and Health Act, and revisions to laws and regulations concerning solid-waste disposal, improving water quality, and cleaning up hazardous-waste sites. The agenda also calls for greater business access to public lands for resource development, unifying nationwide regulation of the food system, and streamlining the federal procurement process.

Level the trade playing field. The U.S. remains one of the world's most open markets at a time when many industrialized nations are gradually closing theirs, says the Chamber. Moreover, the U.S. government does too little to encourage and assist U.S. exporters, the federation contends.

The Chamber's agenda calls for establishment of fair trade and investment rules globally through the General Agreement on Tariffs and Trade, which has more than 100 member nations, and regionally through approval of the pending free-trade agreement among the U.S., Canada, and Mexico.

The agenda also calls on the U.S. government to aggressively seek enforcement of trade agreements and U.S. trade laws as a deterrent to protectionism by other nations.

Reform the health-care system. Americans spend more on health care collectively—more than 14 percent of gross domestic product last year—than citizens of our major international competitors.

Employee health-care costs are an ever-growing burden on U.S. business, according to annual surveys conducted by the U.S. Chamber. Average medical and dental benefit costs borne by the employer for each worker increased from \$860 in 1980 to \$2,811 in 1991, an increase of 226 percent.

The business agenda includes legislation to ensure universal access to health care; spark competition for patients among hospitals, doctors, and other providers; and encourage cost-conscious behavior by consumers and providers.

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Benefits Update

The fall-off in pension coverage, the increase in uninsured Americans, and a potential headache in health reform.

By Roger Thompson

RETIREMENT PLANS

A Decline In Covered Workers

Only 42 percent of American workers were covered by an employer-sponsored retirement plan in 1990, a figure that has shrunk in recent years as government regulation of such plans has increased, according to a new study.

The study, conducted for the Small Business Administration, estimates that 29 percent of all companies with retirement plans terminated at least one such plan between 1986 and 1990. This estimate is one-third higher than the previous estimates of plans terminated over the same period, the study says. The summary of its findings are reported in the 1992 edition of an annual SBA report, *The State of Small Business*.

Sixty-one percent of the smallest firms, those with up to 24 employees, said that onerous federal laws and regulations were the primary reasons they terminated a pension plan.

Among all employers, this group is also the least likely to sponsor a retirement

plan. The SBA study found that only 17.8 percent of all firms with fewer than 25 employees offered a retirement plan in 1990, and 12.8 percent of their workers actually participated in the plans. (See the accompanying chart.) Among the largest firms, 96.5 percent offered pension plans, and 61.8 percent of their employees participated.

Thirty-six percent of the companies with no plan said they had no interest in starting one.

The type of plans offered also differed by firm size. Of the workers in the smallest firms offering retirement plans, the study found that 87 percent were covered by defined-contribution plans, which base benefits on contributions from

Retirement Plan Coverage In 1990

Percentage of Employees Covered, By Firm Size

	All Firms, By Category	Number of Employees			
		1-24	25-99	100-499	500+
Mining, Construction, Transportation, Communications, and Public Utilities	52.8%	12.2%	34.8%	52.8%	70.8%
Trade	28.8	8.3	32.1	27.9	44.8
Finance, Insurance, and Real Estate	82.1	16.7	47.3	57.5	88.5
Services	33.5	20.5	33.8	31.4	45.5
ALL FIRMS	41.8	12.8	34.5	41.1	61.8

SOURCE: U.S. SMALL BUSINESS ADMINISTRATION

CHART: AMY PUGLISI



workers and their employers.

Among large firms, 82 percent of the workers were covered by defined-benefit plans, which base benefits on years of service and salary.

WORKERS' COMPENSATION

Insurers Nervous About Health Reforms

Insurance company executives fear that impending national health-care reforms will trigger a deluge of new workers' compensation claims that could bankrupt the system.

The problem is simple: Cost-containment measures under national health reforms may limit an individual's choice of doctors and increase out-of-pocket expenses for many. As a result, workers would be more inclined to seek medical care under workers' compensation, where cost containment is virtually nonexistent.

Unlike group health plans, workers' comp requires injured workers to pay no out-of-pocket medical expenses, and in most states, workers are free to seek treatment from any doctor they choose.

"Effective cost containment under national health-care reforms will cause massive cost shifting to workers' compensa-

tion, where cost containment is ineffective," says Caleb L. Fowler, president of CIGNA Property and Casualty Companies. Implicit in his comment is that many of the claims would be fraudulent.

Fowler's remarks came during a panel discussion of the workers' compensation market at the annual joint meeting of the American Insurance Association, the Insurance Information Institute, and the Insurance Services Office Inc., in New York in January.

Robert E. Vagley, president of the American Insurance Association (AIA), said afterward that the insurance industry is prepared to make its concerns about cost shifting known to Congress and the White House. "We've got to protect our interests and make sure that the workers' comp line of insurance isn't harmed by health-care reform," said Vagley. But he was not specific about how insurers could avoid the feared cost shift. Neither were members of the panel.

As a separate line of insurance, workers' compensation industrywide hasn't

turned a profit in two decades, said Vagley. He noted that AIA will embark this year on "its most extraordinary legislative effort ever to restore workers' compensation to profitability." The association has targeted 18 states for reform, including California, Pennsylvania, and Florida.

But panel members were not optimistic about success. John Wortman, president and CEO of Amerisure Companies, said, "If we can't get labor and management and legislators on our side, workers' comp may be doomed as a line of business."

David A. Kocher, group executive of Aetna Life and Casualty, echoed that sentiment. "I'm personally becoming less and less hopeful that we can put together a winning [workers' comp] system," he said.

Warned Fowler: "The sum total of all the reforms we have embraced over the last decade have not succeeded [in stemming the industry's financial losses]. In fact, the deterioration has accelerated."

HEALTH INSURANCE

Uninsured Population Grows

In 1991, one out of every six Americans under the age of 65—or 36.3 million people—had no health insurance of any kind. Just three years earlier, in 1988, the number of nonelderly uninsured totaled 33.6 million.

These and many other figures on the nation's uninsured are contained in a new, 70-page report by the Employee Benefit Research Institute (EBRI), and they underscore one of the toughest domestic policy issues facing the Clinton administration—providing this large and growing group with basic health care.

The report from EBRI, a nonpartisan research organization in Washington, D.C., is based on findings of the most recent Census Bureau Current Population Survey. "These data will prove useful in evaluating and estimating the costs of health-care reform initiatives advanced by the new administration and other public-policy makers," said EBRI's president, Dallas Salisbury.

Of those without health insurance, most were working adults (56.4 percent); the remainder were children (26.3 percent) and nonworking adults (17.3 percent).

For most Americans, holding a job means access to health insurance. Seventy-one percent of all workers are covered by an employment-based health plan. But access to health insurance varies greatly with company size.

Of the 20.5 million workers who have no health insurance, almost half are either self-employed or work for companies with fewer than 25 employees. (See the accompanying chart.)

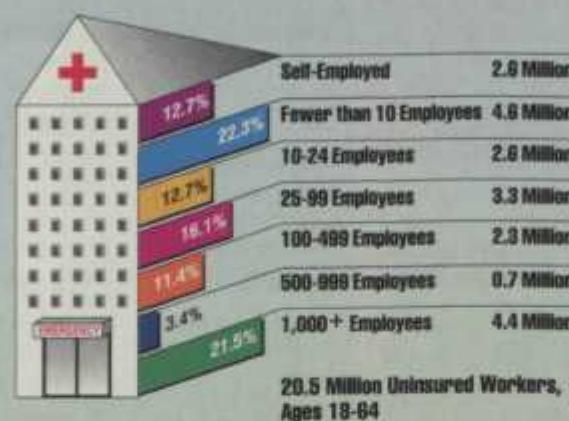
Among all firms with nine or fewer workers, one in three employees has no

health insurance. In contrast, only one in 10 workers goes without health insurance in companies with more than 500 employees.

The report also gives a state-by-state breakdown on the percentage of uninsured. Those places where 20 percent or

Latest Numbers On The Uninsured

Workers Without Health Insurance, By Firm Size, 1992



SOURCE: EMPLOYEE BENEFIT RESEARCH INSTITUTE

CHART: AMY PUBLISHER

more of the nonelderly population has no health coverage are the District of Columbia (30.3 percent); Texas (25.3 percent); Louisiana (23.8 percent); Florida (23.5 percent); Mississippi (22.1 percent); Oklahoma (22.1 percent); Nevada (21.8 percent); California (21.7 percent); Arizona (21.1 percent); Alabama (20.6 percent); and Idaho (20.6 percent).

Connecticut had the lowest percentage of uninsured, 8.8 percent.

A copy of EBRI Issue Brief No. 133, *Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 1992 Current Population Survey*, may be obtained for \$25 by writing to EBRI Publications, Box 4866, Hampden Station, Baltimore, Md. 21211, or by calling (410) 516-6946.

PENSION AUDITS

IRS Appeals Its Court Loss

Despite three court losses, the Internal Revenue Service continues to pursue its four-year quest to prove that thousands of small-business owners illegally over-funded their pension plans.

On Dec. 9, the agency filed notice of appeal in the first of three significant Tax Court defeats for the IRS small-business pension audit program. The program was launched in November 1989.

At issue is whether small-business owners could design pension plans that assumed retirement before age 65 and a return on plan investments of less than 8 percent. The IRS argues that using retirement age and interest-rate assumptions lower than these permitted small-business owners to make illegally large tax-deductible contributions to their pension plans.

Most of the disputed plans assumed retirement between ages 55 and 60. And most assumed annual return on investment of 5 percent. Because federal pension laws do not specify what interest rates and retirement ages should be used in designing pension plans, the legal case against the plan sponsors turned on the reasonableness of their assumptions.

In three separate 1992 decisions, two in July and one in September, federal Tax Courts have ruled against the IRS. The September opinion from the Phoenix court carried the concurring approval of 14 of the nation's 19 Tax Court judges.

Pension experts had hoped that the decisive loss in the Phoenix court would cause the IRS to abandon some 5,000 unresolved pension audit cases. Bruce L. Ashton, a Los Angeles pension lawyer who maintains the IRS has made "a serious mistake" by appealing, says these cases are now in limbo while the agency pursues its appeal—a process that could take another year or more.

On an optimistic note, Ashton says the Clinton administration could decide to drop the appeal and resolve the outstanding cases.

SMALL-GROUP PREMIUMS

The Highest And The Lowest

Los Angeles is the most expensive place in the country for a small business to buy group health insurance, and Ottumwa, Iowa, is the least expensive, according to a new survey of 1,050 U.S. cities.

A typical group health plan in Los Angeles costs employers an average of \$668 per employee each month; the same

plan in Ottumwa, population 27,381, costs an average of \$266 a month.

The Los Angeles rate is 78 percent higher than the national average of \$375, while the rate in Ottumwa, 60 miles southeast of Des Moines, is 29 percent below the national average.

The survey was conducted by Milliman & Robertson, Inc., a nationwide actuarial and consulting firm. It measured the cost of a typical major medical indemnity plan covering groups of 15 to 45 employees. The cost projections assumed that 40

percent of a firm's employees purchased single coverage and 60 percent purchased family coverage.

All of the first 89 most expensive cities were located in California or Florida. New York City weighed in at No. 90.

Mark Chesner, the survey's author, says many factors account for the wide variations in costs. Among them are physician practice styles and local costs of doing business, such as malpractice insurance rates, employee salaries, and cost of office space.

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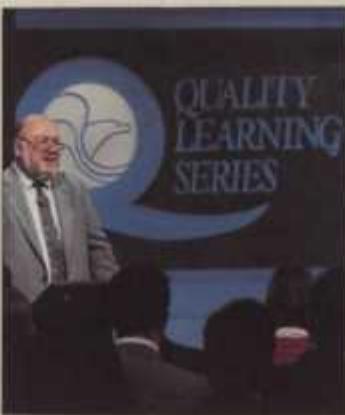
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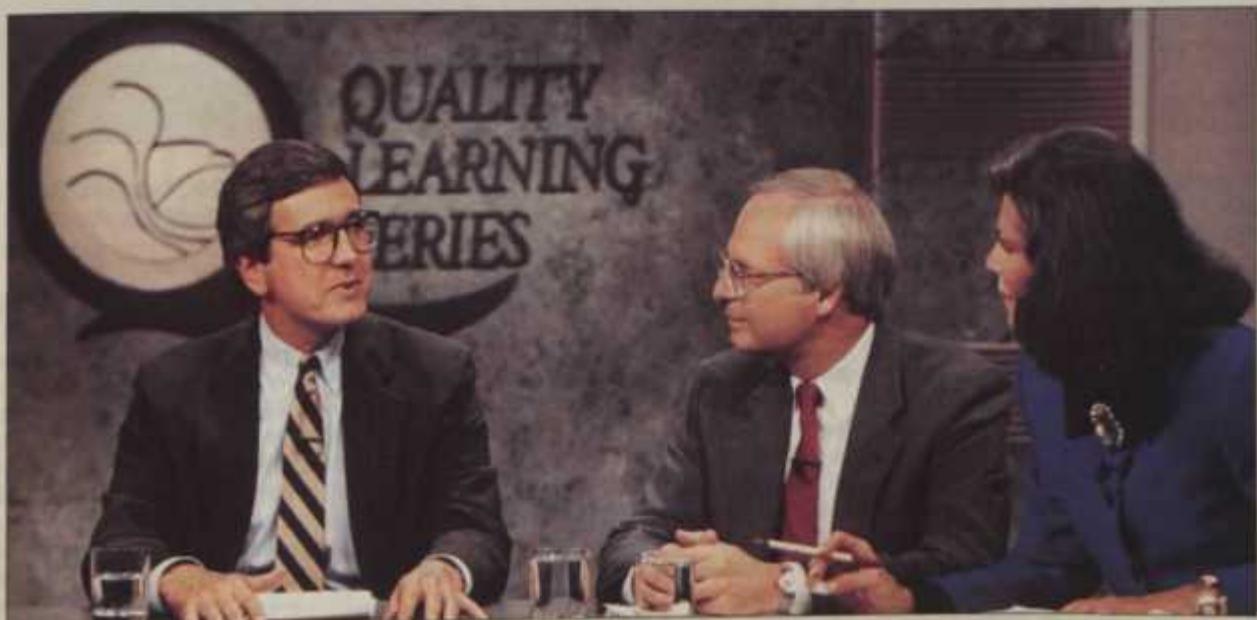
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FLEET MANAGEMENT

Safe Driving Saves Money

By Julie Candler

When an 18-wheeler struck the rear of a minivan driven by a technician for Whittle Communications, of Knoxville, Tenn., the minivan was pushed down an embankment into some trees and was destroyed. The driver was wearing a seat belt and was not injured.

In a noninjury accident such as that one, however, when a business vehicle or a company employee is involved, the company typically ends up incurring expenses regardless of who may have been at fault. Those direct costs can include towing, temporarily replacing the employee's vehicle, and making up the difference between the vehicle's market value and its replacement cost.

Furthermore, when an employee or an occupant of another vehicle is injured, losses can include rehabilitation costs, wages for employee absences, compensation claims, legal fees, and increased insurance premiums.

Then there are indirect costs, such as lost production and time. "After being hit by the semi, our driver had to spend hours filling out reports," says Linda Martin, manager of service support for Whittle Communications, presenters of advertising and educational videos.

Figuring in the direct and indirect expenses, a nonfatal traffic accident costs a company an average of \$7,000, says Patricia Jurgens, safety-program manager at Wheels, Inc., a vehicle-leasing firm in Des Plaines, Ill. A fatality—apart from the immeasurable tragedy—costs an average of \$168,000. The figures are derived from a survey of her company's experiences and those of other businesses reported to private organizations and federal agencies.

Jurgens, Whittle, and others responsible for the safety of drivers and vehicles have analyzed closely the causes of employees' traffic accidents, and they've also found effective steps for reducing them and their high costs.

"The major cause of accidents," says Jurgens, "is poor driver attitude and behavior." Those who drive cars and trucks on company business often have a higher accident rate because of work-related stress.

Says Earl Mitchell, fleet administrator for Owens Corning Fiberglass, in Toledo, Ohio: "Our drivers have to concentrate on so many things. They are going to new

and unfamiliar places. They have to make their calls despite weather conditions."

To reduce the costs of traffic accidents, many companies are implementing accident-prevention programs. They include installation of devices to reduce accidents and injuries, instructions on safe driving, rewarding safe drivers, and transferring unsafe ones out of the driver's seat.

Like any quality-management initiative, an accident-prevention program typically starts by tackling the most serious problem—in this instance, the driver. The best way to have safe drivers, safety experts generally agree, is to check state motor-vehicle

To cut the high costs of vehicle accidents, many firms are turning to prevention programs and safety devices.

offenses such as traffic violations, at-fault accidents, and conviction for drunk driving. An employee who accumulates seven or more points within a year can no longer drive for the company, even in a personal car. "If we find employees have had drunk-driving convictions, they lose their company cars and buy their own insurance," says Hillenmeyer.

At Whittle Communications, Linda Martin has seen positive results from a probation policy. Whittle puts employees on probation for transgressions such as more than two moving violations or at-fault accidents in a year. Probationary drivers are expected to attend, on personal time, a daylong official driver



Behind-the-wheel experience is part of the program for Hewlett-Packard's Toni Owens in a session conducted by Gerry Dolga of Advanced Driver Training Services.

records before hiring an employee who will drive on company business, whether as a sales person, truck driver, messenger, or in some other capacity.

"We won't hire anybody with more than three points [charged to his or her license] in the past three years," says Ted Hillenmeyer, safety analyst for Progressive Insurance Co., auto insurers in Cleveland.

Companies should also have—and enforce—strict rules, particularly on drunk driving and seat-belt use. Progressive Insurance uses a system of points for

school, such as one held by the National Safety Council, a congressionally chartered organization based in Chicago.

A driver on probation at Whittle becomes ineligible to share in any bonus money distributed in a quarter. An at-fault accident results in a payroll deduction. Any further citations, and a probationary employee is fired.

Many companies require the use of lap and shoulder belts. "Our fleet has had eight air bags go off," says Ted Hillenmeyer of Progressive Insurance. "Seven

people suffered only minor bumps and bruises. The eighth had to be hospitalized briefly. He wasn't wearing a seat belt."

To enforce a seat-belt-use requirement, Jerry Albertini adds points for nonuse under the rating system used at his firm, Simplex Time Recorder, in Gardner, Mass. Albertini, who is manager of corporate services, learns of nonuse through periodic checks of motor-vehicle records,

At Simplex Time Recorder, drivers who have no preventable accidents in a year receive plaques and cash. Branch offices with outstanding safety records also are recognized. Safe driving also can entitle an employee to select extra options on his or her next company car.

To back up programs that encourage safe driving, fleet administrators generally recommend

a continuous driver-training program. "Training must constantly be reinforced," says Patricia Jurgens, who helps clients of Wheels, Inc., develop safety programs. "Safety must be part of the corporate culture."

Driver training, says Jurgens, can be whatever works for a company. She prefers interactive devices. "If trainees watch a video, they should answer questions about

highest accident rates, the company stages half-day safety courses conducted by Advanced Driver Training Services of King of Prussia, Pa. When a course is needed, the training firm sends current or former police officers to conduct instructional sessions, which sometimes include up to three hours of behind-the-wheel practice on a secured lot.

The measures are part of an effective program to reduce liability claims against Simplex by third parties involved in accidents. In three years, claims have been cut by 50 percent, according to Albertini, and he expects to see a further 10 percent reduction when results for 1992 are in.

A one-time campaign conducted by Roche Biomedical Labs, Inc., of Burlington, N.C., earned a 70 Percent Plus Award. The award is sponsored by the National Highway Traffic Safety Administration in cooperation with state and local governments, and it is designed to recognize organizations that meet or exceed the agency's goal of seat-belt use by at least 70 percent of drivers.

Jane Crabbe, assistant vice president of



PHOTO: GENE TOUCHTON

From the driver's seat, instructor Gerry Dolga of Advanced Driver Training Services makes his points to Hewlett-Packard employees Thomas Stokes and Toni Owens.

which indicates seat-belt use by a driver ticketed or involved in an accident.

Some companies encourage good-driver attitudes with awards. Whittle recognizes employees' good records with a percentage of a cent for every mile driven with no accidents and no moving violations. And its policies seem to work. While the average annual rate for fleet accidents is one in five automobiles, the rate for Whittle's 305 vehicles, excluding minor incidents such as rocks hitting windshields, is one for every 10.

it in a workbook, so they pay attention." Problem drivers may need behind-the-wheel training, she adds.

At Owens Corning, fleet administrator Mitchell sends quarterly safety bulletins to the company's 500 driver salespersons. The company also shows safety videos at its quarterly sales meetings. He says the training programs are paying off. His company had 56 reported accidents in the past 25 months, compared with 73 the previous year.

At Simplex branches that have the

Roche's national fleet and travel services, headed the program, held in Burlington in cooperation with the traffic-safety agency, the North Carolina Governor's Highway Safety Program, and the city police.

Roche personnel determined the percentage of drivers using seat belts as employees entered the company parking lot one morning in April 1992. In early May, Roche began distributing seat-belt promotional materials from the state's Department of Transportation.

A parking lot survey a month later found that seat-belt use had risen from 71 percent to 76 percent, better than the national goal of 70 percent and today's

FLEET MANAGEMENT

national average of 62 percent. Crabbe plans to repeat the seat-belt program yearly.

In addition to equipping drivers with the right safety attitudes, businesses should purchase vehicles with the right safety equipment. Air bags add an extra 18 percent of protection against fatal injuries in a crash (seat belts are rated as 42 percent effective). About 32 percent of all corporate fleet managers now order all new passenger cars equipped with air bags.

Even more important than air bags, most fleet managers say, are antilock braking systems, available on most cars and light-duty trucks. Sensors in these systems start brakes pumping automatically whenever wheels lock up under heavy braking. They are designed to keep a vehicle under control and bring it to a straight stop.

Last July, Navistar International introduced the first antilock braking system for medium-duty trucks equipped with air brakes.

Ted Hillenmeyer says Progressive Insurance is equipping all of its 1993 vehicles with daytime running lights, which are the headlights controlled by a \$33 "black box." The device turns the lights on when the car is started and turns them off after the ignition key is removed.

The running-lights decision was based

on studies by AT&T and by the Insurance Institute for Highway Safety, in Arlington, Va., showing such lights reduced accidents from 7 to 32 percent. "Cars blend in when they don't have their lights on," says Hillenmeyer.

A safety feature that protects van drivers for a Buffalo Grove, Ill., firm is a partition that keeps equipment carried in each van from flying forward into the driver's compartment in sudden stops or crashes. The company, Landis & Gyr Powers, installs temperature-control systems in large commercial facilities. "Our van drivers carry a lot of brass parts," says David Lighthall, fleet and travel manager.

The \$500 safety partitions are combined with \$1,000 shelves installed in each van after purchase; the shelving is reusable at least once, putting the average cost of the safety package at \$1,000 per vehicle.



PHOTO: ERIN STENBERG

Safety analyst Ted Hillenmeyer.
Black box keeps headlights on when engine is running.

Car theft can be as dangerous and costly as accidents and is becoming more frequent and sometimes violent. Some fleets are ordering devices that cost \$500 or more for use in tracking a car's location if it is stolen.

Simplex purchases factory-installed alarm systems for use in its Chevrolet Lumina APV minivans. These remote locks operate with transmitters carried by drivers. When a driver gets within 20 feet of the parked vehicle, the transmitter automatically disarms the alarm system, unlocks the doors, and turns on the interior lights. When the driver parks the car and walks away, the transmitter turns the lights off, locks the door, and activates the alarm system.

One company believes the theft rate has dropped since it began using printed "decoy stickers" saying the vehicle is protected by an alarm system with a name that the firm concocted; in fact, there is no alarm system.

Overall, some safety experts recommend avoiding the use of the word "accident." It means "happening by chance," implying that drivers have no control over accidents and that they cannot be prevented. That's wrong, the experts maintain, saying that 95 percent of all accidents can be prevented by defensive driving. Approaching safety from that point of view can save large sums for employers.

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The National Highway Traffic Safety Administration's "70 Percent Plus" award program is conducted by the agency's regional offices. For the location and phone number of the office nearest you, contact the state highway-safety liaison in the office of your state's governor.

REGULATION

An Obscure Rule Works Overtime

By David Warner



PHOTO: T. MICHAEL KEZA

The costs of contesting a Labor Department charge that he broke a little-known pay rule contributed to the demise of his engineering consulting firm, says William Pierce.

Many employers are unwittingly violating a U.S. Department of Labor pay rule, and they could pay a high price as a result. To be precise: U.S. companies could owe \$39 billion in back pay, according to the Labor Policy Association, a business research organization in Washington, D.C.

The rule—on overtime compensation—has been in effect since 1954, but it has come to the fore, mostly in economically painful ways, because of a handful of recent court decisions and increased Labor Department enforcement actions against companies.

William Pierce says the costs of fighting the Labor Department's charge that he had violated the rule contributed to the demise of his 32-employee engineering consulting firm in Cincinnati. He says it cost him nearly \$30,000 in back pay and legal fees and resulted in a 2½-year legal battle that diverted his attention from the business.

Pierce says he had "no idea, no concept of what [the Labor Department] was looking for" when it examined his payroll records in June 1988.

The rule says employers must pay hourly employees at one-and-a-half times their hourly rate for each hour over 40 they work in a week. Employers are not required to pay overtime, however, to employees who are paid "on a salary basis" and who also meet certain requirements related to "duties."

Generally, employees performing in a professional, executive, or administrative capacity meet the "duties" test. The current controversy involves the "salary" test. The Labor Department regulation says employees are paid "on a salary basis" if they receive a minimum guaranteed salary on a weekly or less-frequent basis regardless of the hours they work or the "quality or quantity of the work performed." The standard minimum pay requirement for meeting the "salary" test currently is \$170 per week.

The department says employers may deduct pay from salaried employees for full-day absences but not for partial-day absences. If workers are docked for partial-day absences, says the department, they are "hourly" employees and should receive overtime pay for hours worked over 40 in a week.

The rule "is proving to be a huge trap for the unwary," says labor-and-employment attorney Samuel D. Walker. "Many companies are not in compliance with it." A member of the Washington, D.C., law firm of Wiley, Rein & Fielding, he has served in the Labor Department as acting assistant secretary and as acting wage and hour administrator.

Pierce's engineering firm, Pierce Processing Inc., did consulting for companies changing their physical plants and industrial processes. He says he thought he was a progressive employer with a flexible leave policy; he allowed employees to take

If you dock salaried workers for partial-day absences, you could find yourself in court.

time off when necessary as long as they worked 80 hours in a two-week period. "Our system was set up to be more than fair and more than equitable," he says. His industrial engineers earned about \$55,000 a year.

The firm was cited by the Labor Department for improperly handling 105 hours out of 69,000 hours worked by its employees over two years. The department said Pierce owed \$22,000 in overtime pay to the 11 workers who had put in those 105 hours. The department reached that conclusion after determining that six employees (not necessarily among the 11) had been docked a total of \$3,400 for partial days off during those two years.

The Labor Department argued in court that because Pierce had docked some workers, all of his salaried employees were considered hourly employees and were owed overtime for hours worked over 40 in a week.

Pierce says between 80 and 90 of the 105 hours for which the Labor Department sought overtime pay were the result of employees working, for example, 37 hours in the first week of a two-week pay cycle and 43 in the next. Having worked 80 hours in the pay cycle, the salaried employees were paid their guaranteed compensation.

But the Labor Department said those workers should have been paid for 37 hours of regular time in Week 1 and 40 hours of regular time and three hours of overtime in Week 2, because they were actually hourly employees. They were hourly workers, the department said, because some of them had been docked at one time or other for working less than 80 hours in a pay period.

Although Pierce eventually prevailed in the Labor Department's case against him, the fight cost him \$26,000 in legal fees. In addition, he still had to pay \$3,400 in wages he had docked the six employees who took leave without pay for partial-day absences.

"All [the rule] has done is strip away the flexibility that my employees had," says Pierce, who adds that his workers voluntarily took leave without pay rather than deductions from their leave accounts.

Says labor attorney Walker: "A lot of companies have chosen for personnel-management reasons . . . to have a system in which employees can choose—in some instances employees have demanded—

REGULATION

that their employers reduce the pay of workers who are absent for partial workdays. The feeling in some companies is that such a practice promotes accountability, that it promotes a sense of equity across class lines. . . . but the rules, as they're written, just don't countenance that."

Labor Department policy analyst Dean Speer says the Fair Labor Standards Act (FLSA) of 1937, which includes the overtime-pay rule, doesn't allow employees to bargain away, give away, sell, or acquiesce their rights. "The [FLSA] has long held that an employee may not enter into an agreement with an employer that is contrary to the requirements of the law," Speer says.

The department says the rule prohibiting "dockings" from salaried employees for partial-day absences exists to prevent employers from circumventing the overtime-pay provision. It also exists to protect salaried workers from being required to work, for example, more than 40 hours in a week for no extra pay and then being docked when they work less than 40 hours a week, says Speer. "Where's the level playing field in that?" he asks.

Mark Casso, general counsel for the American Consulting Engineers Council, in Washington, D.C., says it is a common practice to pay a premium for extra hours worked among at least half of the country's engineering consulting firms.

Indeed, Pierce paid his salaried employees straight time for hours worked over 80 in a two-week cycle. After the Labor Department brought the case against him and he changed his pay policies to prohibit pay reductions for partial-day absences, he also stopped paying premiums for extra hours worked. "When the government forced me to change my pay system," he says, "employees on average lost 10 percent" in wages.

The overtime-pay issue has become muddled in its application, say labor-law experts, because of the shift from a manufacturing-based to a service-based economy. Manufacturers continue to produce products—and make money—if an employee is absent for part of the day. In a service firm, however, there is no service if the engineer, architect, consultant, or other service provider isn't on the job. Many service-sector employers say they shouldn't pay employees who aren't providing the service.

The Labor Department agreed with that argument for public-sector employers last fall. In September, the department issued regulations exempting them from the overtime-pay rule, reasoning that public-sector employers have a duty to taxpayers not to spend public money on employees who are not working.

But some private-sector employers



PHOTO: GARFIELD-POLIO, INC.

Critics say the pay rule limits firms' ability to allow flexible schedules.

make a similar case, arguing that they have a duty to investors, stockholders, and other employees not to pay workers who aren't working.

Complicating the overtime-pay issue further are several recent court decisions.

The U.S. Court of Appeals for the Ninth Circuit, in San Francisco, which covers nine Western states, ruled in 1990 that even if salaried employees are only "subject to" having their pay reduced for partial-day absences, the overtime exemption would be lost and the employer would owe those workers overtime pay for all hours worked above 40 a week.

William Kilberg, an expert on the pay rule and a partner with the law firm of Gibson, Dunn & Crutcher in Washington, D.C., says most companies have pay policies indicating that deductions from pay for partial-day absences will be made.

"The net result" of the appeals court ruling, says Kilberg, "is that you have executives and professionals across American industry who are subject to being docked and, therefore, nonexempt [from the overtime-pay rule], and, therefore, owed overtime for all hours worked over 40 in any week over the past two years."

"The sums of money [at stake] are humongous," he says. "We're talking about—if only 50 percent of the employees in the United States are subject to this—\$20 billion a year."

Moreover, the same court said in a footnote that it likely would rule that docking salaried employees' accrued-leave accounts for partial-day absences would be equivalent to reducing their pay and, therefore, would be a violation of the overtime-pay rule. In fact, a Nevada

federal district court recently reached such a decision.

Until recently, most court cases on the overtime-pay issue involved public-sector employees and thus received little attention from private-sector employers, says Kilberg. But the case of *Lynn Martin, Secretary of Labor, U.S. Department of Labor vs. Malcolm Pirnie, Inc.*, which was heard in the U.S. Court of Appeals for the Second Circuit, in New York, in November 1991, "woke everybody up."

Malcolm Pirnie, a 900-employee, privately held engineering company headquartered in New York City, docked less than \$3,300 from the pay of 24 salaried employees over 19 months. Most of the pay reductions resulted from workers voluntarily taking leave without pay, including one employee who was working on her doctoral thesis—with the employer's permission—during work hours.

The company did not think it had a problem with its pay system, says Daniel Shevchik, Malcolm Pirnie's vice president for finance, administration, and human resources. "We thought our [personnel and pay] policies were fairly well in order."

When the Labor Department indicated that the company's pay deductions were illegal, Malcolm Pirnie used a provision in the rule known as the "window of correction" to reimburse those workers and change the company's pay policy.

But the department took the matter to court, claiming that the window of correction was not available to the company; it also said not only that the 24 workers whose pay was docked should be considered hourly employees but also that the

category should include nearly 400 other Malcolm Pirnie employees—engineers, scientists, architects, accountants, supervisors, and attorneys, even the firm's chairman.

A U.S. district court ruled in the company's favor, but the appeals court overturned the ruling, saying that because Malcolm Pirnie's written policy permitted deductions from salaried employees' pay for partial-day absences, such workers are considered hourly employees.

The appeals court also noted the company's requirement that employees work at least an eight-hour day, saying that such a policy "strongly suggests that the company views these employees as hourly and not salaried."

The court said the window for correct-

The overtime-pay rule is "a huge trap for the unwary. . . . Many companies are not in compliance."

—Attorney Samuel D. Walker

How To Abide By The Overtime Rule

Employers can take several steps to avoid violating the U.S. Department of Labor's rule on overtime pay for salaried employees. Here are some suggestions from Samuel D. Walker, a labor-and-employment attorney with the Washington, D.C., law firm of Wiley, Rein & Fielding. Walker has served in the Labor Department as acting assistant secretary and as acting wage and hour administrator.

- Review written pay policies and guidelines. The mere possibility that salaried employees' pay may be reduced for absences of less than a full day could result in liability. Policies and guidelines should expressly state that pay for salaried employees cannot be reduced for partial-day absences.

- Ensure communication between the human-resources or personnel department and the payroll staff about pay practices. A salaried employee may want to take leave without pay rather than annual leave for a partial-day absence. If the payroll department simply honors the worker's request, the employer is in violation of the rule.

- Communicate pay policies to employees, and insist that salaried workers take only full-day absences when choosing to take leave without pay. An alternative is to have them use annual leave when taking partial-day absences, although even this is not risk-free.

The U.S. Court of Appeals for the Ninth Circuit, which covers Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, and Washington, has said it likely would rule that dockings from salaried employees' leave accounts for partial-day absences are equivalent to reducing pay and, therefore, violations of the rule. Companies in other states might be wise to pursue a similar policy in light of the court decision. This is an area of uncertainty because many courts in the rest of the country have yet to rule on the issue of docking from leave accounts.

- Quickly reimburse salaried employees whose pay has been docked inadvertently for partial-day absences. The pay regulation provides a "window of correction" for such mistakes, although at least one court has narrowly defined the circumstances in which the window is open.

- Read Section 541.118(a) of the Fair Labor Standards Act of 1937, which is contained in the *Code of Federal Regulations* (29 C.F.R.). Copies of the section can be obtained by calling the Labor Department's Wage and Hour Division at (202) 219-4907.

- Readers should seek legal counsel about particular situations.

ing the pay situation was not available to the company because it is to be used only for inadvertent deductions, such as clerical errors, not dockings based on company policy.

The case has been sent back to the district court for issuance of a new ruling based on the appeals court's findings.

"Our intention was always to accommodate employee needs," says Jerry Cavaluzzi, the firm's assistant general counsel.

If Malcolm Pirnie loses the case before the district court, it will owe nearly \$750,000 in overtime pay and accrued interest to employees (including Cavaluzzi) whose annual pay ranges from \$40,000 to more than \$70,000.

"The Fair Labor Standards Act was passed to protect the people at the bottom rung of the economic ladder," says Daniel Yeager, a labor-law attorney with the Labor Policy Association. Applying it to highly compensated employees, he says, is "just absurd."

Yeager says the problems created

through the courts' broadening of the overtime-pay rule can be corrected simply: Allow employers to charge partial-day absences to employees' paid or unpaid leave accounts.

"But I'm not sure, at this point, what our likelihood of getting [the law changed] by the new Department of Labor is," Yeager says. "We're really looking to Congress to fix it."

Last year, legislation was introduced in the U.S. House and Senate to rescind the Labor Department's partial-day docking policy. No action was taken on the measures, however. New legislation is expected to be introduced in the 103rd Congress.

The Labor Department's Speer agrees that the overtime-pay rule may need to be reviewed. "Certainly, any regulation that's been on the books since 1954, if for no other reason than age alone, deserves another real hard look," he says. "It's something we're concerned about, and [we] can convey that concern to the new [Clinton] team coming on board." ■

Applying the Fair Labor Standards Act to highly compensated employees is "just absurd."

—Attorney Daniel Yeager

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TAXATION

Hardening The Rules On Home Offices

By John S. DeMott

For a number of harried American taxpayers headed for the April filing deadline for Form 1040, the home-office deduction has generally been a "take-me-if-you-dare" proposition. This year, that will be especially true for the approximately 35 million Americans

who do some or all of their work at home.

In a January decision that meshed conveniently with the 1993 tax-filing season, the Supreme Court made it easier for the Internal Revenue Service to clamp down on home-based entrepreneurs and business people who claim the home-office

The Supreme Court's decision on the home-office deduction confuses some taxpayers but emboldens the IRS.

deduction without following the rules.

In an unequivocal 8-to-1 decision that surprised many tax observers for its lopsidedness, the court sided with the IRS and overturned lenient rulings by the U.S. Tax Court and the U.S. Court of Appeals for the 4th Circuit. The Supreme Court's decision will have the practical effect of drawing hard lines around deductions for use of a home office.

Says Washington lawyer Donald C. Alexander, who was U.S. commissioner of internal revenue under Presidents Nixon, Ford, and Carter: "This is going to come as trouble for a lot of people."

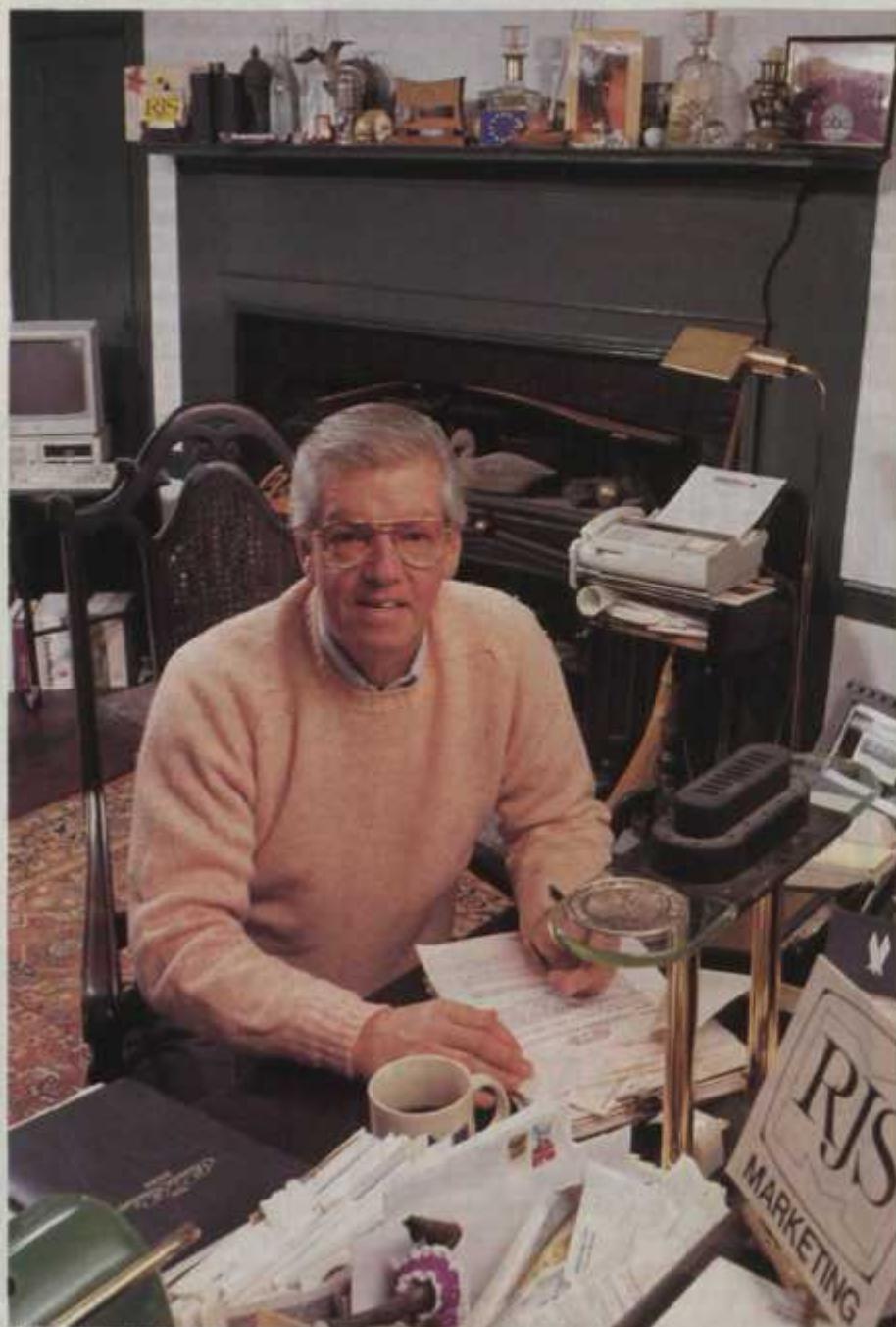
The court rendered its decision in the case of Nader Soliman, a self-employed Virginia anesthesiologist whose \$2,500 home-office deduction for 1983 had been disallowed by the IRS. The justices affirmed what has long been specified in the federal tax code: The office in the home must be the "principal place of business" where revenue is generated.

The twist was that although the physician anesthetized patients at a number of Virginia hospitals, he did his billing and other paperwork as well as his professional reading in a spare bedroom of his McLean home and used expenses for that space as a basis for his home-office deduction. He was forced to do so, he claimed, because he had no office space at any hospital where he practiced.

The Supreme Court said that didn't matter, and that previous courts that had upheld Soliman's deduction had worried excessively about whether the home office was "essential" to the conducting of the business or whether Soliman had no alternative office space.

What did matter, Justice Anthony Kennedy wrote for the majority, was that Soliman earned his money at the hospitals, not at his home office. So, "from an objective standpoint," he wrote, the expenses for the home office couldn't be deducted.

Reaction came swiftly. ChipSoft of San Diego, a leading publisher of tax-preparation software (MacInTax, TurboTax), reported the court's decision for its computer bulletin board on CompuServe and other online information services. But two days after the decision, ChipSoft went ahead as planned and shipped its final disks for 1992 tax returns to stores and client customers with no changes in its instructions for the home-office deduc-



Television syndicator Robert Syres travels for business and does follow-up at home.

PHOTO: STEVE SOROLIN—BLACK STAR

tion. The instructions are already quite pointed: "The rules for claiming a deduction for business use of the home severely limit who may take this deduction."

Self-employed, home-based individuals started telephones ringing in the offices of accountants around the country. Even relatives of self-employed people got involved. Within minutes after she heard of the decision, Kelly Syres in Dallas was on the phone to her father, Bob Syres, in suburban Westchester County, N.Y. She asked if his television syndication firm, which he runs from his 1825 farmhouse, would be harmed by the ruling.

Syres said that as far as he knew, no, but that he'd have to check with his accountant—just to be sure. He spent 200 days away from his office in 1992 on extensive international business travel, he says, but "I do my follow-up work by phone or fax from this office. So I don't think I'm affected." His business is in one of the 14 rooms in his house, and so he deducts $\frac{1}{4}$ of his home expenses for his home office. "I don't see how you can get more conservative," he says.

In the view of former IRS Commissioner Alexander, "anybody who is an itinerant who works out of a particular location but can't perform work at the location" would be adversely affected. For the moment, freelance writers seemed safe; they perform work for client editors in their home offices.

But what of traveling consultants, self-employed interior decorators, and freelance photographers? The latter may gather assignments from home-office telephones, but the actual photography—the earning of money—is done on the client's site, so would that exclude the home-office deduction?

Says Sue Klemens, a freelance photographer near Washington: "That depends on how you define earning money. Freelance photographers spend a lot of time on the phone doing marketing, this sort of thing." Says IRS spokesman Henry Holmes: "I think you have to look at what the home office is used for in relation to the business."

Though it's perceived as a red flag proclaiming "audit me!" to the IRS, the reality of the home-office deduction is a little less scary. About 1.6 million Americans took the deduction in 1992 for the tax year 1991, using the new Form 8829 for calculating it. But only a tiny fraction of those tax filers got the dreaded, politely worded letter from what tax lawyers call "the service." Just 1 percent of the returns from all 114 million U.S. taxpayers, in fact, are audited.

Even on those returns that were audited, says Holmes, what probably attracted the IRS's attention was not the home-office deduction alone but items that were listed along with it, such as



Former IRS Commissioner Donald C. Alexander: "Trouble for a lot of people."

enough additional deductions to create an income loss from self-employment on Schedule C.

Nevertheless, uncertainty has long characterized the home-office deduction. Taxpayers, professional tax preparers, and lawyers in many instances have been unsure about what was and was not legally deductible—and what should and shouldn't be reasonably claimed—by the taxpayer who worked some or all of the time at home. So, in some instances, legitimate deductions went unclaimed because of timidity or ignorance. Bewilderment sometimes prevailed over what was and wasn't a home office.

Even the physical characteristics of what constituted a home office were murky. At one time, it had to be a space

isolated from the rest of the house, but the IRS no longer requires literal walls around the home office, only that the space be used exclusively for business.

At the same time, taxpayers were being asked for more information about the deduction. Form 8829, for example, asks filers for the number of square feet in a home used for an office, as well as a breakdown of specifics such as expenses for insurance and maintenance and assignment of a part of a house's or condominium's depreciation as part of the deduction.

To many, the decision seemed insensitive to the situations of real people who work at, or from, home. Says one frustrated photographer: "What am I supposed to do, bring all my subjects to my home office?"

But others proclaimed the court as knowing precisely what it was doing when it selected Soliman's case for review. One lawyer called it the perfect vehicle for distinguishing the home office from all other kinds of offices and for drawing clear legal lines between them.

Yet far from ending the controversy, the decision probably will stir more litigation. A number of lawmakers said after the decision that they would introduce legislation in Congress to effectively overturn the court's ruling by setting up a broader definition of a home office that would not exclude such classes of workers as telecommuters. Says Alexander: "It's not the end."

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Q&A: Home-Office Deductibility

Here are questions on the home-office deduction and answers compiled from the opinions of various tax experts:

■ Should I take the home-office deduction for 1992?

Yes, if you've been taking it legitimately all along. If you've qualified before, you should qualify again for 1992. Be sure to claim only what's appropriate.

■ When shouldn't I take the deduction?

If you generate less than 50 percent of your income from your home office, steer clear of the deduction. A home office can't be your "principal place of business" if you earn more than 50 percent of your income elsewhere.

■ If I don't qualify, does that mean that all is lost?

No. Home office is but one of several available deductions, and it's not necessarily the biggest one, just the most complicated. You probably can still claim other expenses on Schedule C for such items as auto mileage or maintenance,

telephone expenses, travel, subscriptions, and meals. Just keep thorough records.

■ If I take the home-office deduction, will I be audited?

Probably not. But your return most likely will go into what the IRS calls a "higher selection category," which means your chances of being audited are greater.

■ If I took the home-office deduction in past years, will I be audited?

The IRS said in February that it would not audit pre-1992 returns because of the deduction.

■ What's the bottom line?

Says former U.S. Commissioner of the IRS Donald C. Alexander: "A year ago, I might have said 'take a chance' on the home-office deduction. But not now."

The Supreme Court's decision is only one reason. With the national debt at a staggering \$4 trillion, the IRS is under increasing pressure to collect what's owed Uncle Sam, from taxpayers in home offices and everywhere else.

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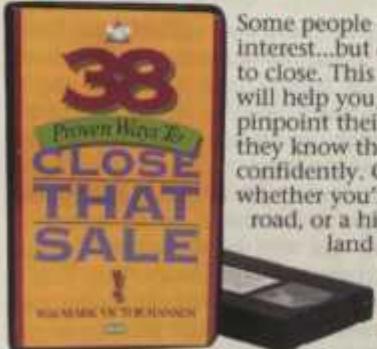
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Family Business

Compensation for family members in the business; two firms that have prospered with quality management.

PLANNING

Paying The Family: Common Problems

By Craig E. Aronoff and John L. Ward

Experts say that setting pay for family employees is simple: "Just pay people what their job is worth!" Doing it is just good business practice and drains negative emotion from sensitive family issues.

Few business owners actually pay family members market value, however. We find compensation is often a contorted and agonizing topic for family firms. There are several factors:

Confusion about roles. We often find great confusion about money and its forms as they relate to the differing roles of employee, owner, and family member. We hear questions like, "Since I own 18 percent of the company's stock, what should my salary be?" or, "Are cousins paid less than offspring?"

Begin dealing with compensation issues by clarifying that employees—whether or not they are family members—receive salaries, wages, benefits, and perhaps job-related perks. Owners may receive dividends and appreciation of their assets. Family members receive gifts and bequests. Family members who work in the business may receive compensation as both family members and employees.

When those who provide funds and those who receive them understand what is what and which is which, a meaningful compensation system and reasonable perspectives on money are more likely to develop.

Tax Savings. Financial advisers often convince business owners that it's better to pay family members more than to pay corporate tax on the money. "Why not keep the money in the family rather than give it to Uncle Sam?" they ask.

For owners of companies taxed as S corporations, this argument is irrelevant. But we urge others who still reason this way to clarify for recipients what pay is for their jobs and what should really be considered "dividends" or "gifts."

Parental Control. Parents may use inflated compensation to lure children

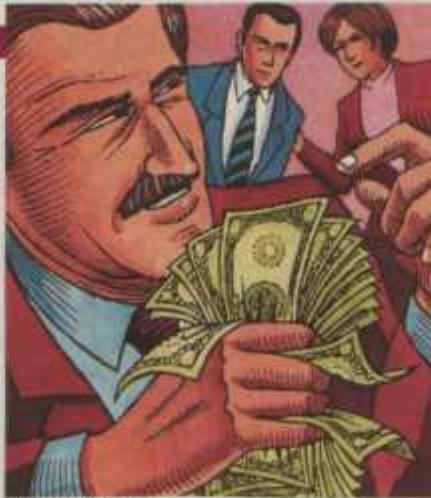


ILLUSTRATION: DAVID CHER

into the family business or to keep them there. We have seen massive pain and conflict engendered by this strategy. If members of the next generation join or stay in the business for reasons other than their own enthusiastic commitment, we predict serious problems for individuals, family relations, and business success.

Some parents do the opposite: They underpay offspring, hoping to keep them on a modest standard of living or to emphasize the value of frugality—a strategy that seldom works. Still others keep pay artificially low to keep the rest of the organization's pay down. Companies where this logic exists tend to attract and keep a less qualified, less aggressive work force.

Helping The "Needy." It's so tempting to give a "tax-deductible allowance" to college students, "income" to needy family members, or health insurance to offspring by putting them on the payroll and paying them for "phantom jobs"—jobs that they really don't do.

In addition to the possibility that such practices may be illegal, all of our experience suggests that when this sort of thing becomes accepted practice in a company, owners eventually lose respect for the integrity of the business, the business loses some energy, and family members lose some realism.

Some family employees are paid what loving parents feel they need. A grandchild is born, and pay goes up. We even know a sibling who received a raise for having a nephew. When her brother's wife decided to leave a paying job for full-time motherhood, her brother's pay was increased to make up for the loss. Since the

sister received equal pay, her compensation was also increased.

We have no complaint with expressions of love and support, but—to maintain clarity and dignity—we recommend that extra monies be given as personal gifts.

Secrecy. Business owners often try to keep all pay a secret. After all, what if someone—family or nonfamily—learned of the inequities?

Studies have shown that when people lack information about pay, differences are overestimated. Thus, secrecy leads to far more speculation and hard feelings than the actual facts would warrant.

As future owners and partners, family members eventually must know the facts. Someday they will set their own pay levels. There is no substitute for doing it "right" from the very beginning and being open about it with family employees and stockholders.

We understand how difficult questions related to compensation can be. The most successful family firms we know use a compensation consultant or their accounting firm or the outside directors on their board to help them.

Money and wealth are among the great benefits of a successful family business, but they can also be a source of great conflict, pain, and even destruction. That's why we strongly urge that companies pay family members what their jobs are worth and that compensation and gifting be an open book among family members. Any other approach tends to plant landmines all over the field of family relations.



John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

The Benefits That Flow From Quality

By Sharon Nelson

Despite some obvious differences, Fellowes Manufacturing Co. and Marpac Industries, Inc., share an important similarity: Both demonstrate that Total Quality Management can help a family-owned business thrive.

Based in Itasca, Ill., Fellowes is a \$175-million-a-year international company that produces office-organization products ranging from corrugated record-storage boxes to computer diskette trays.

The company has nearly 1,000 employees worldwide, and at its helm are brothers James and Peter Fellowes and their father, John Fellowes.

By contrast, the much smaller Marpac, headquartered in Waldwick, N.J., brings in \$7 million annually and employs 70 people.

Co-founded and run by a husband-and-wife team, Donald J. and Suzanne K. Sykes, Marpac manufactures plastic containers and dispensers, such as toner cartridges for copier machines.

The leaders of both companies say their emphasis on Total Quality Management (TQM) has enabled their companies not merely to survive the recession but to prosper.

Faced with industry changes that called for lowering costs and getting new products to market more quickly, Fellowes Manufacturing turned to TQM three years ago. While Fellowes has reduced the number of its employees, Peter Fellowes, the executive vice president, says that "sales today are increasing at about 9 percent annually," compared with 6 percent growth a year ago. Productivity, based on sales per employee, has increased 28.7 percent; employee turnover has dropped; and the company has been able to significantly reduce the amount of inventory it was carrying while at the same time doubling inventory turns. "That has a tremendous impact on our ability to manage cash flow," says Fellowes.

Don and Sue Sykes note that their company expanded its Kingston, N.Y., plant by 9,000 square feet—or 36 percent—last summer and will open an additional plant in Ardmore, Okla., next summer.

"Over the last five years," says Sue Sykes, Marpac's president and CEO, "we've had continued growth in sales and growth in our customer base, and this to us is significant in a period when a great deal of the country is talking nothing but recession and hard times."

At Marpac, says its chairman, Don Sykes, TQM means that "everything in our company has to be done the best that

is humanly possible. There's no room for 'good enough.'"

TQM focuses on such principles as customer satisfaction; continuous improvement of products, processes and services; accurate measurement to assess

a company to improve," say the authors. Rosenbluth has since implemented a TQM program.

Marpac has always done a good job of managing and documenting quality on the product side of the business, says Eric A. Pearson, quality-programs manager. Now it is beginning to apply quality principles to the service side, looking at such issues as how quickly telephones get answered, how quickly callers get the



The plastic containers their firm makes must be the best, say Donald and Suzanne Sykes, chairman and president, respectively, of Marpac Industries, Inc.

problems and chart progress; and teamwork.

Most of the total-quality concepts are not really new, says Gary B. Roberts, associate professor of strategy, entrepreneurship, and quality at Kennesaw State College, in Marietta, Ga. "They've been around a long time, especially in family businesses."

Meeting or exceeding the customer's needs is a practice at which family businesses are especially adept, Roberts says. They know "who butters their bread."

Where family firms may falter, however, is in the area of measurement. What they often lack, Roberts says, is a systematic program that enables them to assess critically whether or not they are doing a good job.

"We assumed we were a 'quality' company. We were in for a surprise," write Hal F. Rosenbluth and Diane McFerrin Peters in *The Customer Comes Second* (Morrow, \$20), a book about Rosenbluth Travel, a fourth-generation family business in Philadelphia.

Several years ago, the company decided to apply for the prestigious Malcolm Baldrige National Quality Award. The application called for statistical measurement as proof of consistent improvement in the company.

"We knew we operated on the principles of quality, but we didn't have the tools to prove it, the same tools that help

information they need, how accurate the information is, and how close Marpac comes to meeting projected shipping dates.

Companies like Marpac, Rosenbluth, and Fellowes, where the commitment to Total Quality Management begins with the top leadership, are more likely to be successful with TQM than companies without top-level support. When Fellowes launched its TQM program, Peter Fellowes says, it was a plus that he, James, the company's president, and their father, who is chairman, were able to say to their employees, "We're going down this road, and it's going to be bumpy, but we're going to go down it because it's the right road. These are our reasons, and this is what we hope to accomplish, in time, through this process."

However, some family-business founders resist a formal TQM program. If what they have done has been successful so far, they may not see a need to change. But unless you have a system that periodically reviews and questions everything that you do, Roberts warns, you may miss a turn.

"That's why so many businesses fail—the smaller ones particularly," Roberts says. "They did a great job and got a good customer base. Somebody saw what they were doing, figured out how to do it

better, and gradually eroded their market share."

If the family firm is small, a lack of financial resources and personnel may hinder the implementation of TQM, according to Samuel W. Woolford, director of quality management for the Wyatt Co., a nationwide human-resources consulting firm. On the other hand, he says, smaller size may mean employees are closer-knit, and change may be easier to accomplish.

Here are some pointers for launching TQM in your family business:

Make sure your company knows what it's doing. Woolford advises learn-

ing all you can about TQM before deciding to implement a program. He says you should have a good strategic plan for the company so that you have a clear direction in mind. You also need to understand how TQM will affect your business.

"TQM is a business decision and a business investment, and you should treat it like any other major corporate capital effort," he says. "If you don't give the same degree of planning and analysis upfront, you'll waste your money."



PHOTO BY JOHN ZICH

Productivity and sales have shot up at their office-products manufacturing firm since they introduced Total Quality Management, say James and Peter Fellowes.

Be creative. When Fellowes Manufacturing was searching for ways to decrease setup time on its injection-molding presses, it videotaped the existing process of changing over molds in a press. The videotape enabled employees to spot inefficiencies and come up with improvements. "We're at one-third of what our original time was," says Peter Fellowes.

Peter Fellowes warns that going through TQM is upsetting. He says the process challenges the organization and its structure, the corporate culture, the company's assumptions about doing business, and even "the value of a lot of the work that's being done in the company."

TQM requires a great deal of introspection and what Gary Roberts calls "ruthless self-study." But the process of self-examination itself enriches a company and sharpens up performance. Even though you pride yourself on the quality you have achieved so far, you may be surprised—and pleased—at how much better you can be. ■

If you are the business leader, be prepared to give TQM your full commitment. Most experts and owners of TQM companies say TQM won't be successful unless top management is behind it. Your support may be needed even more to sustain momentum after the initial successes are achieved, suggests Peter Fellowes. That's when improvements become more difficult to attain.

If you are working for a reluctant leader, try "guerrilla quality." In a large business, says Roberts, this means good middle managers doing what's right and sometimes circumventing problems that come from the top. In a family

business, it may mean other family members practicing quality work on their own.

"The success is what counts," says Roberts. "If it works, Dad comes along. If he doesn't, then it really raises some questions about the long-term survivability of the business."

Adopt the principles, not just the vocabulary. Roberts says he hears war stories from nonfamily employees of companies where members of the owning family say they are a total-quality company but they don't really practice it. When this happens, employee trust and loyalty erode, and a company may lose good people.

Get outside help tailored to your needs. Very few TQM resources are designed for family firms, says Roberts, who is working on a book on TQM and family business. Programs developed for large nonfamily companies may not work for you. To get the most for your money, he suggests, ask a nearby college for help.

Mark Your Calendar

March 11, Mason City, Iowa

"Success and Survival for Family-Owned and Closely-Held Businesses," a succession-planning workshop. For additional dates and information, call Rena Moline, McGladrey & Pullen Family Business Group; (612) 376-9328.

April 18-21, Santa Barbara, Calif.

"Women in Family Business," a four-day seminar exploring the career and personal issues of women who are family members, executives, and/or owners in a family firm. Contact the Owner-Managed Business Institute at 1-800-843-6624.

April 28, Ann Arbor, Mich.

"Business Continuity and Management Succession Planning" is a seminar for owners of family-owned and closely held companies. Contact the Newport Group, 455 E. Eisenhower Parkway, Suite 210, Ann Arbor, Mich. 48108; (313) 769-8000.

May 16-19, Santa Barbara, Calif.

"Passing the Baton," a seminar about transferring the business to the next generation, addresses such issues as strengthening your family's teamwork, managing conflicting business and family goals, and selecting and preparing successors. Contact the Owner-Managed Business Institute at 1-800-843-6624.

May 18, Minneapolis

"Succession and Leadership in the Family Business," a seminar for family firms and owner-managed companies. Call Rena Moline of the McGladrey & Pullen Family Business Group at (612) 376-9328.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20002-2000.

To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Marcia J. Pear

Living With Lupus

Karen Swenson's adolescence was plagued not by acne, but by a host of bizarre symptoms that baffled physicians in her native Minnesota. Beginning at 13, she experienced swelling of her right arm and leg, a facial rash, intermittent joint pains, and mental confusion.

Rheumatologists ran tests but were unable to arrive at a diagnosis other than a very general one of "connective-tissue disease." She was put on anti-inflammatory medication, and her affected arm and leg were encased in casts that she wore for the next 12 years.

Swenson, now 47 and a psychologist in San Francisco, has since learned that she suffers from systemic lupus erythematosus, commonly known as lupus. The disease takes its name from the distinctive red, scaly rash that forms across the nose and cheeks of many people with lupus, supposedly resembling a wolf bite (lupus is Latin for wolf). Over half a million Americans, the vast majority of them women, suffer from this chronic autoimmune disorder, which typically shows up between the ages of 15 and 45.

In lupus, the body mistakenly attacks its own cells and tissues as it would a foreign substance, such as a virus. Lupus can injure or inflame just about any part of the body—skin, joints, kidneys, lungs, blood, or central nervous system. In addition to fatigue and arthritis-like aches, symptoms can include fever, weight loss, mouth ulcers, anemia, sensitivity to sunlight, nausea, and difficulty breathing.

Getting an accurate diagnosis is difficult, as Swenson discovered, because symptoms not only vary from day to day but also are similar to those found in many other illnesses—and sometimes they vanish altogether. From age 25 to 35, Swenson was in remission. Then three successive surgeries and multiple medications compromised her body's defenses, causing her symptoms to flare.

The genesis of lupus is "not well understood," says Dr. John H. Klippel, clinical director of the National Institute of Arthritis and Musculoskeletal and Skin

Marcia J. Pear is a writer specializing in health issues and principal of Pear Communications, a marketing communications firm in San Francisco.



PHOTO: GUYEL FRED—FOLIO INC.

Lupus, a disease that affects mostly women, can be difficult for doctors to diagnose because its symptoms can change from day to day.

Diseases, part of the National Institutes of Health in Bethesda, Md. Because lupus affects proportionately more women than men, he says, "it is assumed that whatever regulates immune function is affected by hormones."

There is also a genetic component. Klippel explains: "Illnesses like lupus commonly evolve from some emotional trauma, which weakens the immune system. Someone with a predisposition toward lupus can develop the disease."

Another theory holds that an environmental trigger such as a virus may be responsible, Klippel says, "and your genes could cause you to be susceptible to that virus."

A genetic thread links autoimmune diseases, he maintains. So, in addition to giving suspected lupus patients an anti-nuclear antibody (ANA) test to determine if the abnormal antibodies that produce lupus symptoms are present, Klippel says, doctors should "ask whether any family members have related diseases, such as rheumatoid arthritis, scleroderma [a hardening of the skin produced by overproduction of collagen], or multiple sclerosis, for example." Swenson's brother, paternal grandfather, and great-aunt all had severe autoimmune disorders.

The goal of treatment, says Klippel, is "to not let lupus interfere with your life."

Educate yourself, so that the illness doesn't overwhelm you. Try to be upfront with your employer. One fellow in the computer industry was going through a difficult phase of his illness and needed to avoid stress. His employer was understanding and assigned him to a different project during that time." Klippel adds that "a low-fat diet and regular exercise are very beneficial in managing fatigue and reducing your stress level."

On the research frontier, DHEA, a male hormone produced by the adrenal glands, holds promise. Unlike other male hormones, which generally produce disagreeable—and sometimes harmful—side effects in women, DHEA is weak, and side effects are virtually absent.

In a 1992 pilot study, Dr. Jim McGuire, associate professor of medicine in the division of immunology and rheumatology at Stanford University School of Medicine, tracked 15 lupus patients who were given DHEA. Most exhibited improved kidney function (kidney failure is one of lupus's major complications) and were less fatigued, he reports.

While these encouraging findings are too preliminary to permit drawing any conclusions, he says that "this study shows us that looking at natural hormones to modulate or change the immune system is certainly a path to pursue."

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

BUSINESS ORGANIZATION

Nailing Down A Board

I own a small private company, and I am thinking about creating a board of directors. Is there any information available that might help me?

H.V. Hannibal, Mo.

Practical advice for deciding if you need a board of directors and for creating one can be found in *Boards of Directors and the Privately Owned Firm* (Quorum), by Roger H. Ford. He directs the Center for Entrepreneurship at James Madison University, in Harrisonburg, Va., and serves on four company boards.

Ford writes that you must first decide what function your board would serve. He lists five different kinds of boards: the window-dressing board, whose job is to improve the company's image; the strategic board, which tackles issues such as succession planning and expansion; the operational board, which is involved in the company's day-to-day activities; the net-

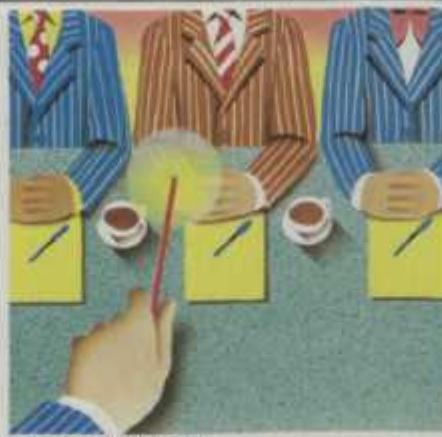


ILLUSTRATION: MARTHA WAGHORN

working board, which extends the number of contacts to the company's owners; and the all-purpose board, which combines the tasks of the other four varieties and is involved in all levels of the business.

Ford also recommends that a company start with a small number of directors and add others as needed.

The book costs \$47.95 and may be ordered from Greenwood Publishing Group, 88 Post Road West, P.O. Box 5007, Westport, Conn. 06881; 1-800-225-5800. Ask for extension 12 and mention ISBN No. 0899305679.

The National Association of Corporate Directors, a Washington, D.C., nonprofit membership organization, has a free publications list obtainable by calling (202) 775-0509. The list includes booklets of how-to information on board practices, selection, functions, and procedures. The booklets are free to association members and are \$8 each for nonmembers.

Other services include the association's director register search service, which provides organizations with detailed information on prospective board members. The service is free to members of the association and costs nonmembers \$100 per candidate.

For more information, write to the association at 1707 L Street, N.W., Suite 560, Washington, D.C. 20036.

SERVICES

Sharing The Expertise

I am interested in using my 25 years of management experience by starting a management-consulting firm. Any tips?

J.H., Denver

The American Consultants League (ACL), a nonprofit organization that represents consultants in more than 200 fields of expertise, offers a wide range of helpful information for the beginning—or established—business consultant. The ACL offers advice on translating business expertise into a consulting firm as well as on setting up an office, billing, marketing, public relations, publicity, cash flow, hiring, and growth.

For more information, write or call the league at 1290 N. Palm Ave., Suite 112, Sarasota, Fla. 34236; (813) 952-9290.

The American Consultants League also sells various helpful books on consulting. *How to Expand Your Consulting Practice, Triple Your Revenue and Become Number One in Your Field* (Consulting Intelligence; \$19) covers the steps involved after you start your business. *The Successful Consultant's Guide to Fee Setting* (Consultants Library; \$29), by Howard L. Shenson, offers tips on pricing your fees competitively.

Other books published by Consultants Library include *The Consultant's Legal Guide* (\$29), by Nancy Tyeatt; *The ACL Consultants Personal Marketing Program* (\$189), by the marketing staff at ACL; and *The Consultant's Money Book* (\$29), by Michael C. Thomsett. To order, contact the ACL at (813) 952-9290; major credit cards are accepted.

Another useful book, available from its

publisher, JLA Publications, is *The Consultant's Kit: Establishing and Operating Your Successful Consulting Business*, by Jeffrey L. Lant. It covers how to select a specialty, pricing, contracts, marketing, office efficiency, diversification, and profits. The book is \$38.50 including postage and handling; call or write JLA Publications, 50 Follen St., Suite 507, Cambridge, Mass. 02138; (617) 547-6372.

ASSOCIATIONS

To Read What You Sew

I am a tailor, and I am interested in contacting an organization that offers information about my profession.

C.J., Hamilton, Ohio

The Custom Tailors and Designers Association of America should be able to help you. Its members include designers, makers of men's custom-tailored outerwear, and teachers of design and tailoring.

Executive Director Irma Lipkin says two trends are emerging: "The industry is moving into made-to-measure clothing and selling directly to the consumer."

The association's quarterly newsletter offers periodic updates about the industry, such as developments in pattern drafting. Membership is \$195 a year.

For more information, write or call the Custom Tailors and Designers Association at 17 E. 45th St., Room 401, New York, N.Y. 10017; (212) 661-1960.



APICULTURE**Start With The A-Bee-C's**

I am interested in starting a beekeeping business, and I need information about how to go about this.

J.Q., Duluth, Minn.

The American Beekeeping Federation offers a free kit of information on beekeeping in residential areas, on turning beekeeping from a hobby to a business, and on the environment necessary for raising bees.

The kit also contains a list of publications on the subject of beekeeping and a copy of the federation's monthly newspaper, *The Speedy Bee*.



For more information, write or call the American Beekeeping Federation at P.O. Box 1038, Jessup, Ga. 31545; (912) 427-8447.

Another possible source of help in your planning is *Starting Right With Bees*, a handbook written and published by A.I. Root Co., a firm that offers all the

equipment necessary (except the bees) to become a beekeeper. The book outlines ways to avoid the most common problems faced by beginning beekeepers, including bee-related disease.

The book is available for \$7.99, postpaid, from A.I. Root Co., P.O. Box 706, Medina, Ohio 44258; (216) 725-6677.

MARKETING**Goal Tending**

As a new small-business owner, I keep hearing about the importance of marketing. Exactly what is marketing, and are there books I can read on the subject?

T.D., Council Bluffs, Iowa

According to the American Marketing Association, a Chicago-based trade association representing marketing professionals, marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services that achieve the goals and objectives of you or your business.

Marketing may be as simple as greeting your customers by name, thus enhancing their shopping experience in your store, or as complicated as a long-range promotional plan that involves media, special events, and new-store openings.

There are numerous books and semi-

nars on the subject. The American Management Association, a New York-based membership association that provides education about management issues, offers a series of marketing seminars for beginners on developing a marketing plan, getting the most out of your marketing budget, and promoting your business.

The association also offers a free publications list covering a wide range of books on the subject. For more information, contact the American Management Association at 135 West 50th St., New York, N.Y. 10020; (212) 586-8100.

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Writers will be identified only by initials and city. Questions may be edited for space.

Nation's Business

The Small Business Resource Guide

What You Need To Know About Starting, Running, and Growing Your Business

From The Editors
of DIRECT LINE

The Small Business Resource Guide

What You Need To
Know About Starting,
Running, and Growing
Your Business



Nation's Business

This updated and expanded edition answers the most frequently asked questions to Direct Line, the popular advice column for small business owners and managers. The 84-page guide provides the latest how-to information and expert advice on crucial business concerns such as:

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NB0383

For Your Tax File

How to keep taxes from trapping you.

By Albert B. Ellentuck

AMORTIZATION

A Tax Break For Franchise Purchasers

During these difficult economic times, more and more franchise businesses are being put up for sale by the original franchisees. When a franchise business is purchased, the buyer would do well to consider the tax implications of the purchase.

Typically, a purchase of a franchise business includes the franchise rights, trademarks, trade names, furniture, fixtures, equipment, and inventory. The purchaser may amortize for tax purposes the portion of the purchase price properly allocated to the franchise right.

In a recent Tax Court case involving McDonald's restaurants, *Canterbury vs. Internal Revenue Service*, the purchasers had acquired 16 restaurants at a total cost of about \$6.5 million. The taxpayer had allocated a substantial part of the purchase price to the franchise rights, which the IRS challenged. The Tax Court subtracted \$1.6 million for the tangible assets purchased and \$400,000 for the going-concern value, and it held that the balance of \$4.5 million should be allocated to the franchise rights.

The IRS then argued that the \$4.5 million included other intangible assets

such as good will, which cannot be amortized at all for tax purposes.

The Tax Court disagreed, saying that the good will was not an asset "separate and apart from the good will inherent in the McDonald's franchise." The McDonald's system heavily emphasizes quality and uniformity, which involves training sessions and advertising as well as significant quality controls. The court said that the right to use the McDonald's system, trade name, and trademarks are all part of the McDonald's franchise and cannot be divided and sold separately.

Accordingly, the court held that the full \$4.5 million was to be considered as paid



Good will is built up over time. The U.S. Tax Court ruled on "the good will inherent in the McDonald's franchise."

ESTATE PLANNING

A "Q-Tip" Trust Can Reduce Taxes Significantly

The Internal Revenue Code allows an unlimited estate-tax deduction, known as the "marital deduction," for transfers to a spouse. For example, a husband with \$1 million worth of assets could leave them all to his wife and there would be no estate tax upon his death.

Individuals who want to give their

spouse an income interest but no rights to the principal have another option—the "Q-Tip" (Qualified Terminable Interest Property) trust.

Traditionally, the marital deduction has been available only if those assets are given to the spouse outright. However, some husbands or wives are reluctant to leave their assets outright to the surviving spouse. This is particularly true where there are children from a first marriage, or where there are concerns about the surviving spouse preserving the principal for the children. In these situations, the Q-Tip trust may come in handy.

Under a Q-Tip trust, the surviving spouse must be at least entitled to all the income from the trust; the income must be paid at least annually during the spouse's lifetime; and no one but the spouse may have an interest in the income or principal

for the franchise right and could be amortized by the taxpayer over 10 years.

Although in this case the amounts allocated to the franchise rights were allowed to be amortized over 10 years, the law was amended in 1989 to require that franchises costing more than \$100,000 must be amortized over 25 years.

For franchises purchased from another franchisee for \$100,000 or less, the Canterbury decision will be very helpful.

For franchises costing more than \$100,000, a 25-year write-off is better than no write-off at all. The final version of the 1992 Tax Act, which was vetoed by President Bush, contained a provision that would have allowed intangible assets, including good will, to be amortized over a 14-year period.

This proposal was recently reintroduced in the House of Representatives. If it is enacted, the distinction between franchise rights and good will would be eliminated for future purchases.

In view of the significant effect on the tax consequences, careful planning is essential in structuring franchise agreements and in allocating the purchase price. See your tax attorney.

during the spouse's lifetime.

In addition, the assets must be invested in income-producing property if the surviving spouse so requests. If stock of a family-owned business is part of the trust, provision can be made for the company to pay dividends to the surviving spouse, or for the stock to be sold and the proceeds to be reinvested in income-producing property.

The estate must make an election on the estate-tax return to treat the trust as a Q-Tip. This is a critical election for the executor and should not be overlooked. At the same time, it gives the executor an opportunity for a "second look" to see if the election is beneficial to the estate.

The Q-Tip trust also can be set up to allow distributions of principal to the surviving spouse. Usually this is done "for the spouse's health, maintenance, and welfare."



Tax lawyer Albert B. Ellentuck is a partner in the Washington law firm of Colton and Boykin. Readers should see tax and legal advisers on specific cases.

It's Your Money

A monthly survey of strategies and suggestions to help you with your personal finances.

By Peter Weaver

INVESTING

From Tykes To Tycoons: Children As Investors

For learning about money management and wise investing, "the best time to begin is when a child is around 7 or 8—when they can understand the concept," says Amy Rauch-Bank, publisher of *Square One*, an investment newsletter for beginners.

Children may surprise you with their insights that can lead to good investment opportunities. "They know which food chains, toy stores, or clothing items all the kids like," Rauch-Bank says, "and they want to buy stocks in the companies that provide those goods and services."

After a while, she says, they begin to learn how to analyze the possibilities of other companies that are not so obvious. And they begin to learn about such sophisticated concepts as diversification and dollar-cost averaging (investing a fixed amount on a regular basis).

The best way to get started in investing, according to David Blackmon, publisher of the monthly *Direct-Purchase/Dividend-Reinvestment News*, a monthly newsletter, is to buy fractions of stock shares directly from the issuing companies. "Some companies," he says, "make it especially easy for young investors because they let you buy additional fractions for as little as \$2 or \$10."

You first must buy one share from the company, and then you can buy additional fractions for small amounts of money. "This way," Blackmon says, "you don't have to pay any commissions, and your dividends are automatically reinvested."

Blackmon puts out a directory of 900 companies that sell stock directly to the public (with dividend-reinvestment plans) and a monthly newsletter aimed at beginners, for \$49 a year; the price includes monthly updates for the directory. For more information, contact David Blackmon at DPDR News, P.O. Box 388, Etiwanda, Calif. 91739; (714) 941-1924.

Another resource is Amy Rauch-Bank's *Square One* newsletter, a bimonthly priced at \$29.95 a year. It has a section for young investors. For a free sample copy, write or call *Square One*, 259 Peninsula Lake Drive, Highland, Mich. 48357-2854; (313) 887-7897.

Tax-Free Money-Market Funds Can Increase Your Earnings

If you are in the 31 percent or the 28 percent tax bracket, check out the rates you can get from tax-free money-market funds. Chances are you can earn (after taxes) considerably more than you would get with a taxable fund.

Susan Bishop, a spokeswoman for IBC Donoghue, publisher of money-market advisory services, says the average yield for tax-exempt funds is around 2.5 percent, compared with the 2.8 percent average for taxable funds.

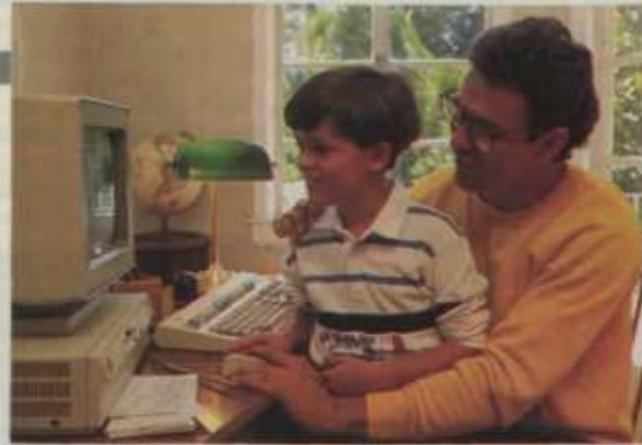


PHOTO: AP/WIDEWORLD—THE STOCK MARKET

You're never too young: Introducing children to investing can give them a sound financial footing for later years.

If you are in the 31 percent bracket, this means your tax-exempt fund would be earning 3.6 percent. If you are in the 28 percent bracket, you'd be getting around 3.4 percent. Brokers and tax-exempt funds often have interest-rate tables that can pinpoint just what pretax-equivalent return you'd get from any given fund.

Bear in mind, however, that some funds that are actually short-term bond portfolios are offering double the rates as an "alternative" to the tax-exempt money-market funds. "They are not alternatives," says Bishop, "because you can lose money on your initial investment when interest rates fluctuate." With a true money-market fund, you can't lose money on your investment; the principal is guaranteed. Short-term-bond prices, however, can go down because of interest rates, which in turn can decrease the value of your investment.

CREDIT CARDS

How To Make The Rate War Work To Your Benefit

It's a buyer's market with credit cards. Interest rates on unpaid balances have plunged to 11 to 13 percent, down from 18 to 21 percent, with some going as low as just over 6 percent as part of special

six-month offers to attract new customers.

"It's a rate war," says Stephen Szekely, a top executive with PSI, a bank marketing-research firm in Tampa, Fla., "and smart customers are playing one card issuer off against another."

Here's how it works. Let's say you have a balance of \$2,000 or so and you're paying around 18 to 19 percent. You receive in the mail an offer from another issuer with a 13 percent rate for the card and an 11 percent rate for special, cash-advance checks to pay off your current, higher-interest balances.

You then call your current card issuer to say you've been offered a better

interest rate. "When customers call in with new rates offered by someone else," says Szekely, "they often get counteroffers that match the new rate or do it one better."

How far down will credit-card rates go? "Not much farther," Szekely says, "because issuers' profits are being squeezed to the limit."

Right now, 11 percent seems to be the floor for rates. "But you're going to see special offers, with time limits," says Geri Detweiler, spokesperson for the Bankcard Holders of America, a nonprofit consumer organization. "For example, Signet Bank of Virginia has a limited introductory offer of 6.9 percent, so new



Peter Weaver is a Washington-based columnist on personal finance.

customers can do some debt consolidation before settling into a higher, permanent rate."

And consumers are not the only ones profiting from the rate war. "A lot of small businesses," says Detweiler, "have charged up significant credit-card bal-

ances because they were shut out from getting regular, lower-interest bank loans."

To make rate shopping easier, Bankcard Holders of America has put together *The Low-Interest, Low-Fee Credit-Card List*, a directory of all the bargain rates

around the country, including Signet's 6.9 percent, Arkansas Federal's 8 percent, and Wachovia (Georgia) Bank's 8.9 percent.

The rate-list directory costs \$4, and you can order a copy by calling 1-800-553-8025.

RENTAL CARS

Your Rental Car Quits; What Do You Do Next?

What happens if your rental car breaks down, after hours, a long distance from the company's service office? Will the rental firm bring a tow truck and a replacement car? Or will you be stranded and have to get the car fixed on your own or find some other transportation?

Here's a sample of what *Consumer Reports Travel Letter* found when it posed those questions to rental companies around the country:

■ Avis has a toll-free hot line that routes your call to the nearest company office. You get a replacement car and cash reimbursement for any out-of-pocket expenses you incurred.

■ Budget's rental contract lists a phone number for roadside help. Decisions on whether to tow, repair, or replace a car are based on the circumstances and nature of the breakdown.

■ Hertz tells renters to call a 24-hour central hot line for emergency road service. Dispatchers will send a tow truck or replacement car, or they will arrange to transport renters to their destination by taxi.

■ National's customers may call either their rental location or the company's



It's bad enough when your car breaks down, but what do you do if it's a rental?

24-hour hot line, which routes calls to the Cross Country Motor Club (15,000 service and towing affiliates). The motor club's 24-hour road service will send a tow truck, arrange for repairs, or provide a replacement car if necessary.

Other larger automobile-rental firms operate in much the same way as those four companies do.

If you have an after-hours breakdown with a car rented from a smaller company, however, you may have to arrange and pay for local repair work, which is reimbursed or deducted from your rental fee.

Check the breakdown policy of any car-rental company—regardless of its size—before you rent. If you won't be driving a long distance or driving after hours, a low-cost local rental company can be a good bet.

If you belong to a motor club, check to see if it provides you any coverage if your rental car breaks down.

AIRLINES

Frequent-Flier Benefits In Death And Divorce

The airlines steadfastly say you cannot pass your frequent-flier mileage benefits on to another person. If you die, according to most airline benefit contracts, your mileage dies with you.

There are exceptions, however. Some airlines say you can transfer benefits to an heir if you specifically say so in your will or trust.

In case of divorce, the airlines maintain, the spouse that has the frequent-flier account must retain the mileage benefits.

One major airline, for example, states:

"Accrued mileage and certificates do not constitute property of the member. Neither accrued mileage nor certificates are transferable (1) upon death, (2) as part of a domestic relations matter, or (3) otherwise by operation of law."

There are no known test cases on the issue of whether frequent-flier miles can be transferred.

Joseph DuCanto, a family-law specialist with the Chicago law firm of Schiller, DuCanto and Fleck, says "most heirs and divorced spouses don't think of frequent-flier mileage as a valuable asset that can be evaluated and allocated in a transfer of property."

If you have questions about whether your frequent-flier miles can be transferred, check with the airlines holding your accounts.

REAL ESTATE

Helping Elderly Parents Tap Their Home Equity

Has some member of your family—perhaps an elderly parent—become "house-rich and cash-poor?" It happens typically when the mortgage on the family homestead has been paid off and the equity has built up into hundreds of thousands of dollars, yet the owner comes up short on retirement income—unable to afford an extra vacation trip, or a new car, or house remodeling to make room for visits from children and grandchildren.

There are two basic ways for retired people to tap the equity in their home so they can add to their monthly income. One is a reverse mortgage, and the other is a sale and lease-back arrangement.

"Reverse mortgages," says Ken Scholen, director of the National Center for Home Equity Conversion, "provide cash to homeowners, and most require no repayment for as long as you live in your home." The lender provides the homeowner a fixed monthly amount in exchange for a share of equity in the home, and even if you occupy the home beyond the term of the reverse mortgage, you cannot be forced to leave the property.

The amount that the homeowner receives each month depends on the home's equity and the owner's age. For example, a 75-year-old person with \$150,000 in equity could receive about \$675. A couple, both 75, could get about \$519.

Another way for an elderly parent to get cash out of an equity-rich home is to negotiate a sale and lease-back with one or more of their children. Basically, the elderly parent or parents sell the home to their children for a fair market value and receive a large chunk of cash, which they invest. The children lease the place back to their parents at perhaps 20 percent below the going rate (because the tenants are known to be good risks).

This arrangement has a potential problem, however. If an elderly parent eventually enters a nursing home, the equity from the home that the parents invested could be taken over by the nursing home to help pay the bills. If, on the other hand, the parents still owned their home, the nursing home could not get at the equity.

You might also encounter some tax problems because of the size of the capital gains from the sale of the home. You should get advice on lease-back arrangements from an accountant or a lawyer who specializes in real estate.

Retirement Income On The House, a book by Ken Scholen, explains the ins and outs of reverse mortgages; it's available for \$29.45, postpaid. For more information, call 1-800-247-6553.

Reverse Mortgage Locator, which lists lenders' names and phone numbers, can be obtained by sending a stamped business envelope and \$1 to Ken Scholen, NCHEC Locator, 1210 E. College Drive, Suite 300, Marshall, Minn. 56258.

Free-Spirited Enterprise

By Janet L. Willen



The Clean-Up

Cleaning a restroom is a dirty job. But if you think somebody's got to do it, think again.

The restroom from Self-

Cleaning Environments Inc., of Santa Monica, Calif., washes itself.

Manufactured by R-Cubed Composites Inc., of West Jordan, Utah, the unit is a self-contained stall that fits within a standard washroom. Inside are a toilet, sink, and mirror as well as toilet paper and paper towels.

For cleaning, the unit closes solidly. It occupies 36 inches square when shut. The paper towels and toilet paper remain on the outer walls and stay dry. The cleaning cycle operates somewhat like a dishwasher. It goes through wash, rinse, and dry cycles in 25 minutes. There are 39 jets with spray heads throughout the cabinet. Ordinarily the unit requires a full cleaning once a day.

Self-Cleaning Environments says the facility meets all requirements of the Americans with Disabilities Act for accessibility and operation. The unit costs approximately \$35,000. For more information, call (310) 393-9410.

A Bright And Shining Light

The SolarPal Safety Street Light, from **Solar Outdoor Lighting**, of Stuart, Fla., shines when the sun doesn't.

The solar-powered street light consists of a specially designed General Electric cobra-head-style fixture, a GE lamp, a solar panel, battery box, computer, and bracket. The self-contained system mounts on a pole or wall and doesn't use any electric utility lines.

The flat solar panels absorb the sun's rays and convert them to electricity, which is stored in the battery. At dusk, a computer monitoring device activates the light, turning it on. At dawn, it turns the light off. The light can shine for five consecutive nights even if there is no daytime sun.

Various models are available, costing from \$2,000 to \$3,000. The company also makes solar-powered lighting systems for billboards, telephone booths, and bus shelters. For more information, call (407) 286-9461.

The Sun Shines In

If you can't work outdoors, you could be suffering from "malillumination"—or deprivation of the full spectrum of natural light—says John Nash Ott, who coined the term. Ott, a pioneer of time-lapse photography and creator of the Ott-Lite, warns that malillumination can have a negative effect on health and wellness.

The Ott-Lite, marketed by **Environmental Lighting Concepts**, of Tampa, Fla., is designed to bring the sunlight indoors by duplicating the natural light of the sun while shielding harmful rays.

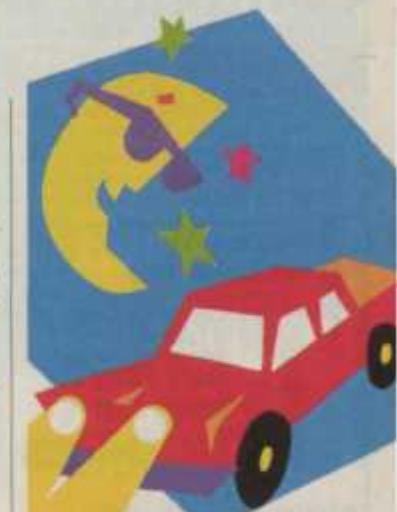
The firm sells several sizes of the Ott-Lites as well as retrofit tubes that fit into conventional fixtures.

Prices for Ott-Lites vary. A screw-in bulb costs \$25, a tabletop fixture costs \$99, and a standing fixture costs \$285.

For more information, call, (813) 621-0058.

Night Light

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rience, try a pair—or two—of glasses.

Two companies—**National Marketing Associates**, of Lynnwood, Wash., and **Blue Seas Treasures**, of Metairie, La.—sell glasses made to block the glare of oncoming headlights, street lights, and rain-slick pavements on medium and heavily trafficked roads.

National Marketing Associates says its Ortho Night Driving Glasses are coated inside and out with a refractive material to block 61 percent of any halogen headlight glare. The glasses are made by the General Electric Co., in Pittsfield, Mass., and Orthotronics Inc., of New York, and are available in aviator frames, traditional frames, and clip-ons. The glasses cost \$69.85 and come with a 30-day guarantee. For more information, call 1-800-541-8931.

A less expensive option is available from Blue Seas. The importer says its Night Driving Glasses will "brighten your view" by 25 to 30 percent. The glasses cut the glare by making oncoming headlights look yellow.

The glasses are made in Taiwan and are available in the traditional style and clip-ons. Cost: \$14.95 plus \$3.75 shipping and handling.

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POLL RESULTS

Expectations For U.S. Policy-Makers

The Clinton administration and the new Congress face a major challenge in convincing small business that they will recognize its concerns, a *Nation's Business* poll indicates.

The poll was taken before the president submitted his official formal legislative program to Congress and well before Congress began dealing with most of his major proposals.

Future *Nation's Business* surveys will determine small-business reaction to policy developments affecting the enterprise system as they unfold throughout the legislative year that has just begun.

Results reported in this article were obtained in a Where I Stand poll related to the arrival of the new administration and the new Congress. Findings of this monthly poll are forwarded to key officials in the executive and legislative branches.

Participants were not optimistic that the new team of decision makers in Washington would achieve significant progress soon on resolving economic problems.

The survey was geared to the extensive political change in Washington. Democrats control the White House and both houses of Congress for the first time since 1981, when Ronald Reagan began the first of his two terms as president. Democrat Jimmy Carter served from 1977-81.

While Democrats continued to hold majorities on both sides of Capitol Hill, the arrival of more than 120 newcomers to that body has been viewed as the first step toward a substantial change in the way that the national legislature operates.

Poll respondents express concern about making progress on the economy.



PHOTO: SONO HUNLEY—THE STOCK MARKET

Small-business people want public policies that prevent scenes like this.

ELECTION REACTIONS

Does the presidential-election result make you more or less confident that significant progress will be made soon on resolving the nation's economic problems?

- | | |
|-------------------|-----|
| 1. More confident | 19% |
| 2. Less confident | 73% |
| 3. No opinion | 8% |

Does the makeup of the new Congress make you more or less confident that significant progress will be made soon on the economy?

- | | |
|-------------------|-----|
| 1. More confident | 22% |
| 2. Less confident | 66% |
| 3. No opinion | 12% |

How soon after the swearing in of the election victors do you expect progress on the nation's problems?

- | | |
|--|-----|
| 1. Within 100 days | 4% |
| 2. Within six months | 9% |
| 3. Within one year | 16% |
| 4. Within two years | 15% |
| 5. Not while these individuals are serving | 56% |

How do you assess the climate for government actions favorable to small business over the next two years?

- | | |
|-------------------|-----|
| 1. More favorable | 15% |
| 2. Less favorable | 66% |
| 3. No change | 17% |
| 4. No opinion | 2% |

How optimistic are you that the new Congress will enact reforms designed to make the legislature more responsive to business needs?

- | | |
|--------------------------|-----|
| 1. Very optimistic | 4% |
| 2. Moderately optimistic | 18% |
| 3. Not optimistic | 76% |
| 4. No opinion | 2% |

There has been a general expectation that the freshman members, many of whom based their campaigns on pledges to bring about wholesale reforms in the way Congress does business, were more attuned than their predecessors to the necessity for a sound business climate.

Whether that expectation will be realized remains to be seen, but the Where I Stand poll, taken before the legislative year began, indicates that the small-business community does not now expect such a favorable impact by the freshmen.

Two-thirds of the respondents to the *Nation's Business* poll said the makeup of the new Congress makes them less confident than they had been that the lawmakers would achieve significant progress on the economy soon. And nearly three-fourths said that the outcome of the presidential election made them less confident about achieving that same goal in the near future.

Two-thirds said they expect the climate for enactment of pro-business policies to be less favorable to small business over the next two years. Three-quarters said they were not optimistic about the prospect that this Congress would enact reforms making it more responsive to business.

The results of the poll reflect the strong view of small-business people—which has endured from one administration and Congress to another—that too many federal policies are inimical to enterprise.

The extent of change in small-business attitudes toward Washington will probably be related directly to the extent to which those policies are modified or at least not intensified.

Congressional Alert

A report on key legislative issues with suggestions for contacting Congress about them.

Address: U.S. Senate, Washington, D.C. 20510; U.S. House of Representatives, Washington, D.C. 20515.

Pressure Needed To Cut Paperwork

Congress could soon consider legislation that would reduce costly, burdensome federal paperwork and reporting requirements for businesses.

The measure most likely will be introduced as legislation to reauthorize the Paperwork Reduction Act of 1980.

The law established the Office of Information and Regulatory Affairs (OIRA) to review federal agencies' regulations and proposed paperwork requests to determine if costs outweigh benefits.

However, the office has not been as strong and effective in serving as a check on paperwork requirements as it could be. Over recent decades, federal paperwork requirements have emerged incrementally with little coordination or concern for minimizing costs for businesses.

As a result, says the U.S. Chamber of Commerce, much of the federally required paperwork is excessive, unnecessary, and often duplicative, serving no useful purpose and placing huge and needless burdens on businesses and individuals.

According to the Office of Management and Budget (OMB), paperwork and regulatory requirements have increased 17 percent since 1989. Federal paperwork costs the nation \$325 billion annually, according to the Council on Regulatory and Information Management, a private-sector research organization.

The U.S. Chamber believes that because OIRA until 1990 had been saving the economy at least \$6 billion annually, legislation authorizing a strong OIRA should be enacted. OIRA is the only "traffic cop" for burdensome regulations and paperwork.

Contact your representative and senators. Urge them to support legislation to reauthorize the Paperwork Reduction Act and reduce federal and regulatory reporting requirements by strengthening OIRA.



ILLUSTRATION: RICHARD GAGE

Help Derail Bill On Striker Replacement

Legislation that would prevent employers from hiring permanent replacements during strikes over such issues as wages and benefits is expected to be considered this congressional session by the House and Senate.

Current labor law already bans the permanent replacement of strikers in cases involving unfair labor practices.

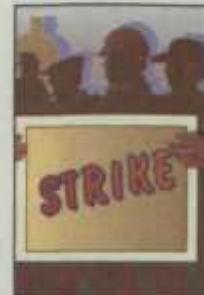
According to the U.S. Chamber of Commerce, federal employment law has effectively ensured for more than 55 years the rights of employees to join unions, elect to be represented by unions, and bargain collectively with employers to improve wages, hours, and working conditions.

Federal labor law is based on the premise that collective bargaining is an adversarial relationship relying on conflict between union and management. However, modern management methods, improved employee-relations policies, and increasing pressure for cooperative methods in the workplace and improvement of product quality require

federal employment laws that encourage improvements in competitiveness while ensuring employee and employer collective-bargaining rights. A ban on the employment of striker replacements would only encourage strikes, threaten jobs, serve as a lever for the forced unionization of open-shop companies, and perpetuate a conflict-based collective bargaining system.

The U.S. Chamber believes striker-replacement legislation caters to special interests and will only benefit organized labor, which represents less than 12 percent of private-sector employees.

Contact your senators and representative. Urge them to oppose striker replacement legislation and instead promote efforts to encourage the use of modern work-force organization and business practices.



Restore Tax Credit For Investment

Growing support in Congress for investment incentives to help strengthen the economy may result in the restoration of an investment tax credit (ITC).

The last investment tax credit was a 10 percent credit and was eliminated in the 1986 tax-reform act.

President Clinton has indicated repeatedly that he views the ITC as important to boosting economic growth, and Congress will be weighing such a credit in its debate over a legislative package to stimulate the economy.

An ITC would lower the tax burden for businesses investing in facilities and equipment, and the resulting investments would likely increase productivity and create new jobs.

Since 1961, investment tax credits have been repeatedly reinstated and repealed. In a concession to lower tax rates, the 1986 tax reform act repealed the ITC, instituted in 1975.

But the prolonged economic slowdown has increased the need for such a tax credit.

Several bills to restore an ITC were introduced during the last session of Congress. Both Democrats and Republicans were among the sponsors. Nonetheless, no ITC was included in the tax bill Congress passed last fall.

A proposal for an investment tax credit is sure to generate controversy; some key legislators believe any ITC unfairly produces a tax windfall for businesses on investments that would have been made anyway; others question the merits of an ITC altogether.

The U.S. Chamber supports restoration of a broad-based ITC that would increase the long-term growth potential of the U.S. economy and provide businesses with stable, consistent tax policy.

Contact your senators and representative. Urge them to support restoration of an investment tax credit.



Editorial

A Guide To A Successful Future

President Clinton has received many recommendations from the private sector on how he can meet his basic campaign pledge, the revitalization of the economy. He will receive more throughout the legislative year.

Members of Congress are likewise receiving suggestions from many quarters on actions they should take to resolve the serious problems that the nation now confronts.

One set of proposals to which the president and Congress should pay particular attention is the 1993-94 National Business Agenda, an action plan listing policies and strategies that will enable this country to meet the challenges of a fast-changing world.

Titled *Renewing American Enterprise*, this agenda merits particularly close attention by the president for two reasons.

One is the grass-roots origin of the plan. It was developed by the U.S. Chamber of Commerce from member input at meetings designed to assess opinions of entrepreneurs in all regions of the country.

The other reason is the Chamber's standing as the nation's most broadly based business federation.

The individuals who helped shape the plan at the regional meetings provide the products, services, and jobs that drive much of the U.S. economy. They not only are demanding change from the status quo of recent years but also are offering specific policies. Speaking through the business agenda, they are calling for fiscal responsibility in government, fair and effective trade policies, freedom from onerous regulatory burdens, a tax system that encourages enterprise, an education system adequate to the high-tech global economy, and health-care reforms based on market solutions. See Page 54 for details.

Policies set forth in the National Business Agenda would achieve those goals, many of which the president already shares.



PHOTO: CHRIS KERN



PHOTO: F.A. SCHILLING

Not only are the business agenda's proposed solutions on target, but also the timing for the Chamber approach is particularly apt. The introduction to the agenda notes:

"Change is what American voters demanded in the 1992 election. Change is what American business faces at home and abroad. And change is what the U.S. Chamber Federation's membership recommends in 25 policy areas critical to renewing American enterprise."

Part of that change, the agenda states, is an emerging national consensus that "we as a country can no longer afford constant confrontation among business, workers, government, environmentalists, and other interest groups, especially in the face of unforgiving global economic competition."

One result of such conflicts was political gridlock in Washington.

The near-record turnover in the U.S. Congress and a new Democratic president offer opportunities for a solution-based approach to national problems in place of stalemate based on conflicting ideologies and interests.

The agenda declares:

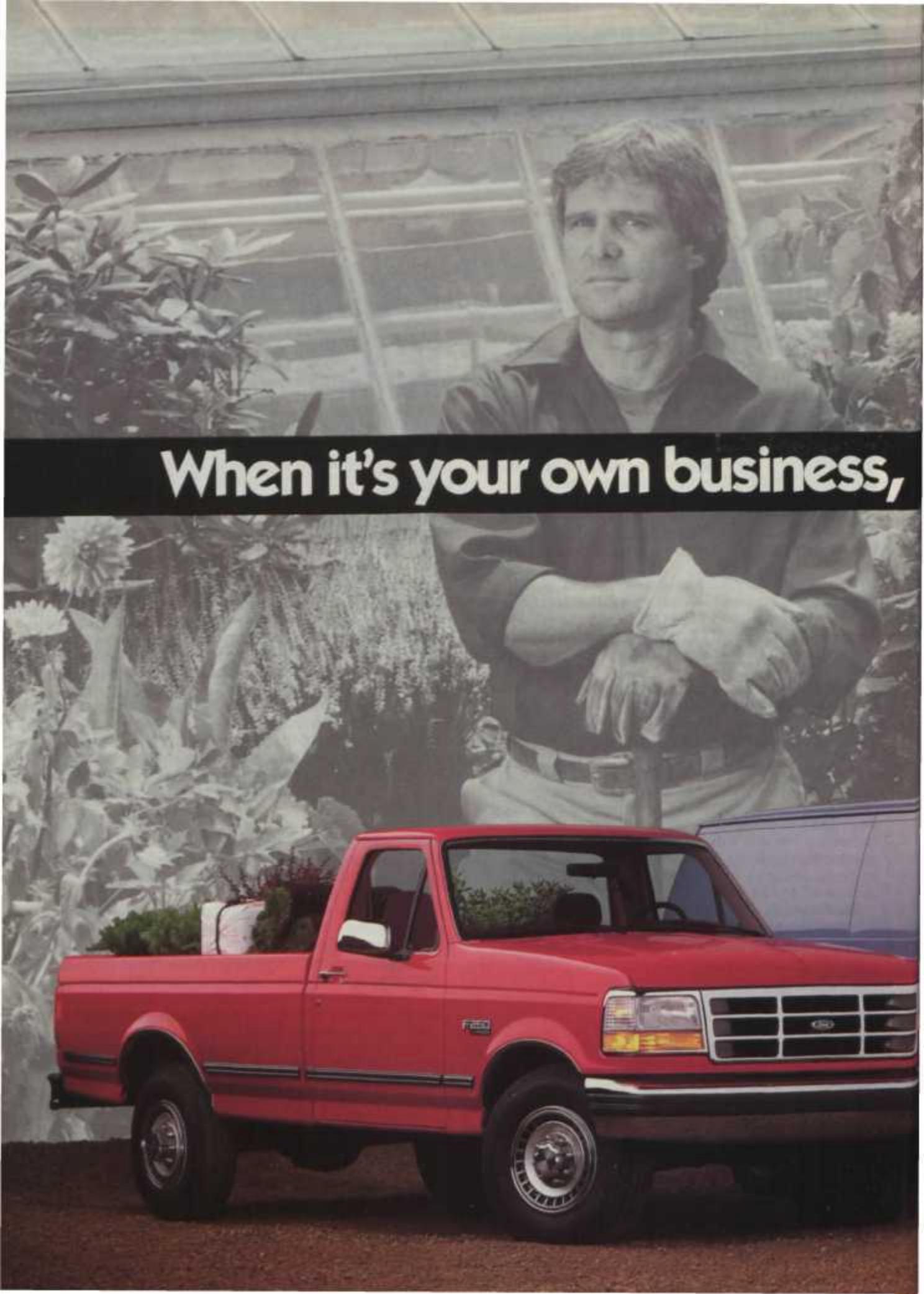
"The U.S. Chamber of Commerce Federation is uniquely suited to play a leadership role in the new environment that emphasizes bringing all parties to the table. That is the essence of the Chamber, and indeed the reason it was created more than 80 years ago."

The Chamber continues "to stress the importance of bringing diverse interests together to forge consensus positions," the agenda notes.

The Chamber offers its plan with the backing of its unique federation. It is made up of individual businesses, state and local chambers of commerce, trade associations, and American Chambers of Commerce abroad—the full span of American enterprise.

The National Business Agenda notes that this membership "wants business to work with the Clinton administration and the 103rd Congress to create a new environment, taking advantage of our nation's comparative advantages and setting the stage for a renewal of American entrepreneurship in the next century."

These are goals that the president and the legislators can and should enthusiastically support.

A black and white photograph of a man with light-colored hair, wearing a dark shirt, standing inside a large greenhouse filled with various plants and flowers. In the lower foreground, a red Ford pickup truck is parked on a dirt surface, its bed filled with potted plants.

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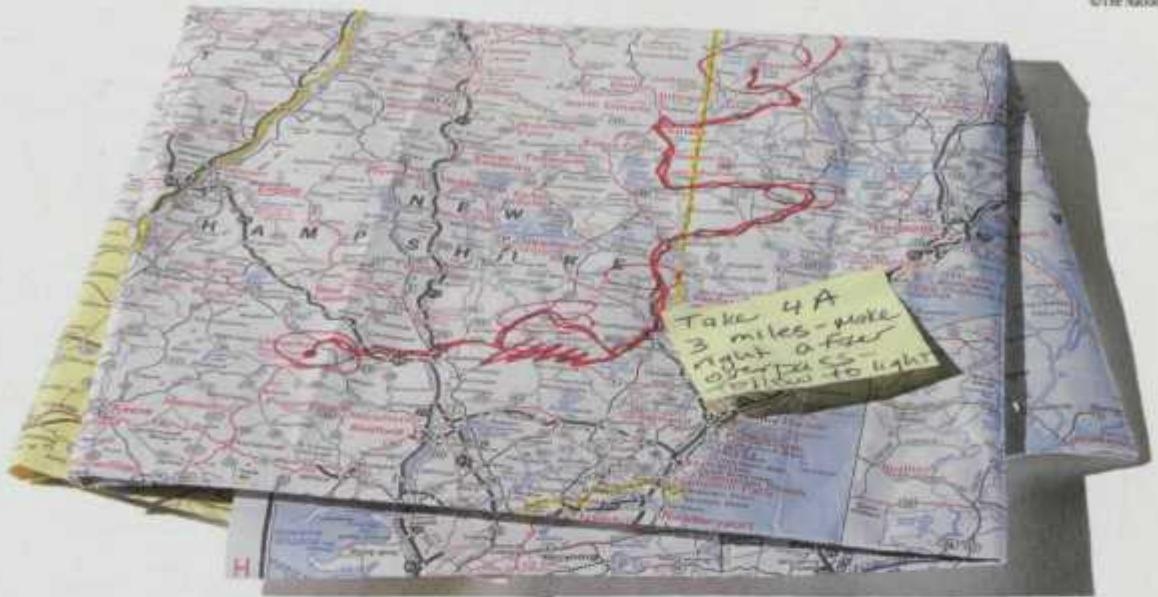
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